DOCUMENT RESUME

ED 101 029 UD 014 717

TITLE Children's Charities, 1974. Part 1. Hearings Before the Subcommittee on Children and Youth of the Committee on Labor and Public Welfare, United States Senate, Ninety-Third Congress, Second Session. Hearings Held February 4-6 and March 11-12, 1974.

INSTITUTION Congress of the U.S., Washington, D.C. Senate Committee on Labor and Public Welfare.

PUB DATE 74

NOTE 491p.; Pages 125-146, 349-366, and 547-560 (copyrighted periodicals material) and pages 472-473 and 569 (marginally legible) have been deleted from this document; For related documents, see UD 014 718-720

EDRS PRICE MF-$0.90 HC-$23.40 PLUS POSTAGE

DESCRIPTORS Child Welfare; *Disadvantaged Youth; Federal Government; Financial Needs; *Government Role; Handicapped Children; *Private Agencies; *Private Financial Support; *Youth Agencies; Youth Programs

IDENTIFIERS Camp Fire Girls Incorporated; Girl Scouts of America; National Youth Clubs of America; Youth Incentives Incorporated

ABSTRACT

These hearings, the first part of hearings on the kind of services children receive through charity; how charities obtain funds from the public; and how much they spend on fund raising, general management, and program services, are comprised of the testimony of representatives from such children's charities as the National Easter Seal Society, Asthmatic Children's Foundation, Girl Scouts of the U.S.A., Camp Fire Girls, Inc., Youth Incentives, Inc., and National Youth Clubs of America; from officials representing state agencies concerned with the regulation of children's charities, and from representatives of the National Health Council and the Philanthropic Advisory Department, Council of Better Business Bureas. "Additional Information" and an "Appendix" consist of prepared statements, letters, and newspaper and periodical articles. In addition are judicial decisions and briefs relating to the following: State of Minnesota vs. Youth Incentives of Washington D.C. and Attorney General of the Commonwealth of Massachusetts vs. Youth Incentives, Inc., International Candy and Food Products, Inc., and Gerald Winters and John M. Carpenter. (JM)

ED 101029

CHILDREN'S CHARITIES, 1974

HEARINGS

BEFORE THE

SUBCOMMITTEE ON CHILDREN AND YOUTH

OF THE

COMMITTEE ON
LABOR AND PUBLIC WELFARE
UNITED STATES SENATE

NINETY-THIRD CONGRESS

SECOND SESSION

ON

EXAMINATION OF THE KIND OF SERVICES CHILDREN RECEIVE THROUGH CHARITY, HOW CHARITIES OBTAIN FUNDS FROM THE PUBLIC, AND HOW MUCH THEY SPEND ON FUND RAISING, GENERAL MANAGEMENT AND PROGRAM SERVICES

PART 1

FEBRUARY 4, 5, 6; MARCH 11 and 12, 1974

UD014717

U.S. DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATION
THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

Printed for the use of the Committee on Labor and Public Welfare

U.S. GOVERNMENT PRINTING OFFICE
34-414 O WASHINGTON : 1974

COMMITTEE ON LABOR AND PUBLIC WELFARE

HARRISON A. WILLIAMS, Jr., New Jersey, *Chairman*

JENNINGS RANDOLPH, West Virginia
CLAIBORNE PELL, Rhode Island
EDWARD M. KENNEDY, Massachusetts
GAYLORD NELSON, Wisconsin
WALTER F. MONDALE, Minnesota
THOMAS F. EAGLETON, Missouri
ALAN CRANSTON, California
HAROLD E. HUGHES, Iowa
WILLIAM D. HATHAWAY, Maine

JACOB K. JAVITS, New York
PETER H. DOMINICK, Colorado
RICHARD S. SCHWEIKER, Pennsylvania
ROBERT TAFT, Jr., Ohio
J. GLENN BEALL, Jr., Maryland
ROBERT T. STAFFORD, Vermont

MARIO T. NOTO, *Staff Director*
ROBERT E. NAGLE, *General Counsel*
ROY H. MILLENSON, *Minority Staff Director*
EUGENE MITTELMAN, *Minority Counsel*

SUBCOMMITTEE ON CHILDREN AND YOUTH

WALTER F. MONDALE, Minnesota, *Chairman*

HARRISON A. WILLIAMS, Jr., New Jersey
JENNINGS RANDOLPH, West Virginia
EDWARD M. KENNEDY, Massachusetts
GAYLORD NELSON, Wisconsin
ALAN CRANSTON, California
WILLIAM D. HATHAWAY, Maine

ROBERT TAFT, Jr., Ohio
J. GLENN BEALL, Jr., Maryland
ROBERT T. STAFFORD, Vermont

A. SIDNEY JOHNSON III, *Professional Staff Member*
JOHN K. SCALES, *Minority Counsel*

CONTENTS

CHRONOLOGICAL LIST OF WITNESSES

MONDAY, FEBRUARY 4, 1974

Page

Falk, Peter, national chairman, National Easter Seal Society, accompanied by Keith Roberts, National Easter Seal Society ---- 2

Grimes, Arthur J., director of membership, National Health Council; accompanied by Arthur Salisbury, M.D. ---- 10

TUESDAY, FEBRUARY 5, 1974

O'Rourke, Helen L., director, Philanthropic Advisory Department, Council of Better Business Bureaus; accompanied by Moylan E. Brown ---- 99

Abramson, Harold, M.D., Chief Psychiatric Consultant, Asthmatic Children's Foundation; accompanied by M. Murray Peshkin, M.D., Lawrence Karnbad, and Israel Friedman, a panel ---- 122

WEDNESDAY, FEBRUARY 6, 1974

Sgarlata, Philip J., director, New York State Charity Registration Bureau ---- 189

Schoenfeld, Howard M., chief, Procedures Section, Internal Revenue Service; accompanied by Chris Neal, Office of Chief Counsel ---- 202

MONDAY, MARCH 11, 1974

Pilsbury, Betty F., member, National Board of Directors, Girl Scouts of the U.S.A., Toledo, Ohio; accompanied by Philena C. Strappelli, executive director, Girl Scouts of Central Maryland, Inc., Baltimore, Md.; Gioia Mapp, Cadette, Troop 525, Annapolis, Md.; Dr. Gloria Scott, first vice president and chairman of the executive committee, national board of directors, Girl Scouts of the U.S.A., Washington, D.C.; Marianne Pinney, director of financial development, Girl Scouts of the U.S.A., New York, N.Y ---- 211

Turner, Dr. Hester, national executive director, Camp Fire Girls, Inc.; accompanied by Dr. Sylvia Koose, associate national executive director; Maudie Katzenbach, executive director, Potomac Area Council, and Camp Fire Girls Vikki Ewing and Jamie Faircloth ---- 229

Winters, Gerald, founder, Youth Incentives, Inc., accompanied by Allan Marx ---- 252

Green, Robert, coordinator of Charitable Solicitations, Department of State, State of Florida ---- 264

Amico, James C., coordinator of Charitable Organizations, State of New Jersey ---- 271

TUESDAY, MARCH 12, 1974

Winters, Gerald, founder, Youth Incentives, Inc., accompanied by Allan Marx—Continued ---- 277

Friedman, Morris, executive director, National Youth Clubs of America ---- 293

Cochran, Carl, director, Commission on Charities, Department of State, State of Pennsylvania; accompanied by Robert Green, coordinator of Charitable Solicitations, Department of State, State of Florida; James Amico, coordinator of Charitable Solicitations, Office of the Attorney General, State of New York; and Donald G. Mulack, assistant attorney general, Chief of Litigation, Charitable Trust and Solicitations Division, State of Illinois, a panel ---- 299

BEST COPY AVAILABLE

STATEMENTS

Page

Abramson, Harold, M.D., chief psychiatric consultant, Asthmatic Children's Foundation; accompanied by M. Murray Peshkin, M.D., Lawrence Karnbad, and Israel Friedman, a panel 122
Amico, James C., coordinator of Charitable Organizations, State of New Jersey 271
Cochran, Carol, director, Commission on Charities, Department of State, State of Pennsylvania; accompanied by Robert Green, coordinator of charitable solicitations, Department of State, State of Florida; James Amico, coordinator of charitable solicitations, Office of the Attorney General, State of New York; and Donald G. Mulack, Assistant Attorney General, Chief of Litigation, Charitable Trust and Solicitations Division, State of Illinois, a panel 299
  Prepared statement 330
Falk, Peter, national chairman, National Easter Seal Society; accompanied by Keith Roberts, National Easter Seal Society 2
Friedman, Morrie, executive director, National Youth Clubs of America 293
Green, Robert, coordinator of Charitable Solicitations, Department of State, State of Florida 264
Grimes, Arthur J., director of membership, National Health Council; accompanied by Arthur Salisbury, M.D 10
  Prepared statement 16
Mulack, Donald G., assistant Illinois attorney general, prepared statement 310
O'Rourke, Helen L., director, Philanthropic Advisory Department, Council of Better Business Bureaus; accompanied by Moylan E. Brown 99
Pillsbury, Betty F., member, national board of directors, Girl Scouts of the U.S.A., Toledo, Ohio; accompanied by Philena C. Strappelli, executive director, Girl Scouts of Central Maryland, Inc., Baltimore, Md.; Gioia Mapp, Cadette, Troop 525, Annapolis, Md.; Dr. Gloria Scott, first vice president and chairman of the executive committee, National Board of Directors, Girl Scouts of the U.S.A., Washington, D.C.; Marianne Pinney, director of financial development, Girl Scouts of the U.S.A., New York, N.Y 211
  Prepared statement 218
Schoenfeld, Howard M., chief Procedures Section, Internal Revenue Service; accompanied by Chris Neal, Office of Chief Counsel 202
Sgarlata, Philip J., director, New York State Charity Registration Bureau 189
  Prepared statement 196
Turner, Dr. Hester, national executive director, Camp Fire Girls, Inc.; accompanied by Dr. Sylvia Koose, associate national executive director; Maude Katzenbach, executive director, Potomac Area Council; and Camp Fire Girls Vikki Ewing and Jamie Faircloth 229
  Prepared statement (with enclosures) 230
Winters, Gerald, founder, Youth Incentives, Inc.; accompanied by Allan Marx 252, 277

ADDITIONAL INFORMATION

Articles, publications, etc.:

  A Solicitations Review Newsletter IN-SIGHT of the Council of Better Business Bureaus, Inc., entitled:
    "Mail Fraud", June–July 1973 108
    "Giving in 1972", August–September 1973 110
    "Model State Law Regulation Charitable Solicitations", October–November 1973 112
  Asthmatic Children's Foundation Residential Treatment Center:
    North Miami Beach, Fla 148
    Ossining, N.Y 151
  Dr. Peshkin's data on long-term therapy improvement in children, from Basis Classical Data, published in 1956 121

BEST COPY AVAILABLE

Articles, publications—Continued — Page
- Excerpts from "The Journal of Asthma Research," a quarterly professional publication:
  - Volumes 1 and 2, September 1963–June 1965 — 125
  - Volume 3, September 1965–June 1966 — 131
  - Volume 4, September 1966–June 1967 — 135
  - Volume 5, September 1967–June 1968 — 139
  - Volume 6, September 1968–June 1969 — 143
- Giving U.S.A., 1973 annual report — 46
- Public Charities audited during 1972–73, from Internal Revenue Service, February 28, 1974 — 207
- Questionnaire of the Council of Better Business Bureaus, Inc — 102
- Summary of Effects of Long-term Administration of Corticosteroids (reference from P.D.R. 1972, page 1198) — 156

Communications to:
- Mondale, Walter F., a U.S. Senator from the State of Minnesota, from Arthur Jack Grimes, director for membership, National Health Council, Inc., Mar. 25, 1974 (with enclosures) — 39
- Perlman, Bernard, Esquire, attorney at law, New York, N.Y., from Walter F. Mondale, chairman, Subcommittee on Children and Youth, Jan. 21, 1974 — 121
- Peshkin, Murray, M.D., Asthmatic Children's Foundation, New York, N.Y., from Walter F. Mondale, chairman, Subcommittee on Children and Youth, Jan. 21, 1974 — 119

APPENDIX

Asthmatic Children's Foundation:
- Report on, by the Council of Better Business Bureaus, Inc., November 1973 — 341
- Communications to Jack Anderson, syndicated columnist, Washington, D.C., from:
  - Harold A. Abramson, M.D., 133 East 58th Street, New York, N.Y., February 8, 1974 — 345
  - Harold Abramson, M.D., 1230 Park Avenue, New York, N.Y., February 10, 1974 — 346
- Telegram to Hon. Walter F. Mondale, a U.S. Senator from the State of Minnesota, from Harold H. Hensold, Jr., on behalf of the board of trustees of La Rabida Children's Hospital and Research Center, Chicago, Ill., February 7, 1974 — 347

Camp Fire Girls and Girl Scouts:
- Consolidated statement of income and allocations of the Girl Scouts of the United States of America — 348
- For A Successful Candy Sale, a money-raising program for Camp Fire Girls — 349
- 1974 Candy Sale Plan Book, published for the aid of Camp Fire Girls — 356
- Girl Scouts Cookies, illustrated brochure with order form — 366
- 1974 Peanut Sale, information sheet and operating procedures for the Potomac Area Council of Camp Fire Girls, Washington, D.C — 370

National Youth Clubs of America, Inc.:
- Communication to Morris S. Friedman, director of marketing/financing, National Youth Clubs of America, Inc., from Carol Cochran, director, Pennsylvania Commission on Charitable Solicitations, May 1, 1973 — 376
- Communication to Carol Cochran, director, Pennsylvania Commission on Charitable Solicitations, from Morris S. Friedman, director of marketing/finance, National Youth Clubs of America, Inc., May 9, 1973 — 378
- News Letter, from Lake Zurich, Ill — 380
- Communication to Carol Cochran, director of Pennsylvania Commission on Charitable Organizations, from Clarence C. Boyd, Jr., crusade director, Cumberland County unit, American Cancer Society, Pennsylvania division, April 16, 1973 — 381
- Communication to Hon. Walter F. Mondale, a U.S. Senator from the State of Minnesota, from William J. Scott, attorney general, State of Illinois, re: complaint and injunction obtained against the National Youth Clubs of America, Inc. (with enclosures), May 29, 1974 — 382

Page

Youth Incentives, Inc.:

Current warehouses, June 5, 1973 ---------- 398

Auditors' report on balance sheet and financial summary for year ended August 31, 1970, by Fallis, Tabak & Co., New York, N.Y., April 30, 1971 ---------- 401

Certificate of authority of a foreign not for profit corporation of the State of Missouri ---------- 404

Application for certificate of authority of a foreign general not for profit corporation, State of Missouri ---------- 405

Exemption application of the U.S. Treasury Department, Internal Revenue Service, dated Sept. 18, 1969 ---------- 407

Exemption application of the U.S. Treasury Department, Internal Revenue Service, dated October 22, 1969 ---------- 409

Summary of financial activities for the year ended August 31, 1970 ---------- 411

Court cases involving:

State of Minnesota v. *Youth Incentives of Washington, D.C.*, a Minnesota nonprofit corporation:

October 27, 1972 ---------- 413

April 23, 1973 ---------- 423

Attorney General of the Commonwealth of Massachusetts v. *Youth Incentives, Inc., a District of Columbia corporation; International Candy & Food Products, Inc., a New York corporation, and Gerald Winters and John M. Carpenter*, defendants, May 12, 1972 ---------- 428

Communication to Jim Young, consumer adviser, Office of the Governor, Tallahassee, Fla., from Alice C. Skaggs, director, Office of Consumer Affairs, West Palm Beach, Fla., re investigation of Intercity Youth Corp, dated March 27, 1973 ---------- 435

Press:

Selected articles and stories appearing in various news media throughout the country ---------- 447

Miscellaneous:

Communication to Hon. Walter F. Mondale, a U.S. Senator from the State of Minnesota, from James C. Amico, coordinator, State of New Jersey Department of Law and Public Safety, division of consumer affairs, charities registration section, April 4, 1974 ---------- 469

Charity—Wise and Responsible Giving, a brochure prepared by the Minnesota Charities Review Council ---------- 472

Illinois Charitable Organization Laws ---------- 475

Procedures, Standards, and Requirements for Charitable Solicitations, prepared by the Social Service Department, Los Angeles, Calif ---------- 498

A Compilation of State Laws Regulating the Solicitation of Funds for Charitable Purposes, prepared by the Council of Better Business Bureaus, Inc., Washington, D.C., February 26, 1973 ---------- 509

The Solicitation and Collection of Contributions for Charitable Purposes, by the State Board of Social Welfare, Albany, N.Y., January 1969 ---------- 517

Proposed Standards—Charitable Solicitations, a worikng draft prepared by the Council of Better Business Bureaus, Inc., January 2, 1974 ---------- 529

In-Sight, a monthly solicitation review newsletter prepared by the Council of Better Business Bureaus, Inc., April–May 1973 ---------- 543

United Way of America:

The House of Accountability, April 3, 1974 ---------- 544

1973 Local allocations, December 1973 ---------- 547

Service identification system, January 1972 ---------- 561

CHILDREN'S CHARITIES, 1974

MONDAY, FEBRUARY 4, 1974

U.S. SENATE,
SUBCOMMITTEE ON CHILDREN AND YOUTH
OF THE COMMITTEE ON LABOR AND PUBLIC WELFARE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:07 a.m. in room 4232, Dirksen Senate Office Building, Senator Walter F. Mondale (subcommittee chairman) presiding.

Present: Senators Mondale and Hathaway.

Committee staff members present: Ellen Hoffman and A. Sidney Johnson III, professional staff members, and Harvey Katz, consultant.

Senator MONDALE. The subcommittee will come to order.

During our lifetime, American charity has accepted the challenge of some of our most terrible problems; to eliminate tuberculosis and polio, to feed millions of hungry children, to aid the crippled and disenfranchised, and to offer new hope and new life to countless victims of our society.

Private, charitable efforts for children and youth provide an essential complement to Government activity. They provide much needed help to countless children. They offer millions of volunteers the opportunity to know the satisfaction of helping others. They offer contributors a clear choice to select a cause they wish to support.

In these hearings, the subcommittee's primary concern will be for the children being served by charities and for the contributors who want to help them. After all, that is what charity is about: generous people on one side, needy people on the other side, and between them, organizations that are supposed to be dedicated to serving the contributors and recipients.

If these two groups, the contributors and the recipients, are in any way being victimized or abused or exploited, the cause of charity in America is suffering.

I am very aware of the problems that confront charities trying to raise money for an admirable purpose. We know that they must spend money to raise money, that they must devote part of their resources to overhead and public relations.

On the other hand, I believe that contributors have a right to expect certain things of a charity, that the money they donate will be handled with reasonable care and for a charitable purpose and that the children in whose name the money is raised will actually benefit.

Our witnesses today will help clarify what kind of services children receive through charity, how charities obtain funds from the public, and how much they spend on fundraising, general management, and program services.

I am very pleased today that our first witness to lead off on this series of panels is Mr. Peter Falk. Being Falk fans, we are very pleased to have you here today. He is better known as somebody who is Colombo, and known to the subcommittee as the national chairman of the National Easter Seal Society. We are very pleased to have you with us here this morning.

STATEMENT OF PETER FALK, NATIONAL CHAIRMAN, NATIONAL EASTER SEAL SOCIETY; ACCOMPANIED BY KEITH ROBERTS, NATIONAL EASTER SEAL SOCIETY

Mr. FALK. Thank you, Senator. I am pleased to appear before you and your—it says here "distinguished colleagues"—your distinguished colleague, and give my views on the value and importance of childrens' charities as I see them. I am serving this year as national campaign chairman for the Easter Seal Society, which is the oldest and largest voluntary organization serving crippled children and adults.

My interest in children with problems goes back for many years. When I was asked to participate in an Easter Seal telethon in New York City, I was supposed to appear for a short time, perhaps a half hour. I remember that. I did intend to go there and get out as fast as I could. It turned out after arriving there and learning about the services that the organization renders to children, I stayed there for the full 20 hours that the program was on the air.

I was invited back the next year and stayed 20 hours that time. I guess you could say I was hooked.

Since that time as national chairman, I have had opportunities to become more fully acquainted with the programs of this organization through talking to many children and young adults who have benefited from its services.

I realize that my personal involvement with the Easter Seal Society does not make me an expert in the area of child care or services. But it has enriched my experience and broadened my knowledge of what a volunteer organization serving children is trying to accomplish.

The case for children's charities is a very simple and straightforward one. There are many, many children who need help. The needs are so vast, that Government cannot possibly meet the massive challenges alone.

This view was reemphasized in a recent speech by the Secretary of HEW in which he stated that the Government does not have all the answers to the myriad problems that exist in the health and welfare areas. He said, "We not only need the private sector to deliver the services, we need all the ingenuity and creativity that the private sector can muster to help us achieve our goals."

It is for these reasons that charities serving children have come into being. These organizations provide many types of services in the areas of health, education, welfare, adoption, foster home placement, prevention of child abuse, counseling, youth guidance, recreation, and others.

This country has a deeply imbedded tradition of volunteerism, a tradition we can be proud of. It has been said that a nation can be judged by the way it cares for its people. Certainly, children with problems are high on the list.

Throughout our history, the voluntary organizations have played a significant role in the building of this great Nation. It was volunteers whose organized efforts built the churches, the hospitals, the libraries—who nursed the ill and who were the source of help in time of trouble.

Great advances have been made in the care of children which might not have been possible without the extensive network of charitable organizations. An added dimension is the channel such organizations offer to the millions of Americans who are eager to help and can do so through volunteer service.

In 1968 a survey was conducted by Roper Associates to substantiate whether there was any real concern or interest among Americans in volunteering to help solve some of the great social crises of their country. The results of the poll showed that 60 million Americans were deeply concerned and wanted to help.

More recently, in 1972, a New York market research firm conducted a nationwide survey in an effort to determine why people give to charities and how they choose the charities they wish to support. The results showed that more than 60 percent of the people who give to charity do so out of a feeling of moral obligation. These people tend to be steady givers. Of all the specific types of charities, those serving needy children, medical research, and aid to the handicappd were most favored, according to the survey.

And so, it seems clear that there is an innate desire in the hearts of most people to improve the human condition by helping others—sometimes on a 1-to-1 personal relationship, sometimes by giving money and services to an organized charity.

There are many ways volunteers give of themselves to childrens' charities. What is important is that there are opportunities for people to become personally involved in needed community service programs.

As concerned and motivated citizens, they want and demand "a piece of the action" in utilizing their talents to help.

Important as the direct services to children are, there is another dimension to the value of childrens' charities and the individuals who make them work. Through public education and information programs, childrens' charities help focus public attention on the needs of children.

The dramatic success scored in conquering polio is one example of what a childrens' charity can accomplish through research when there is public support. There are many other examples of forward strides achieved through arousing the American public and providing the facts about serious problems.

In conclusion, may I say that there is ample documentation that charities serving children occupy a solid niche in this country's approach to meeting urgent needs. If we want to keep our country strong, I firmly believe one of the ways is to help those children who need a helping hand through all available means. The vitality, devotion, and spirit of these chidrens' charities are the powerful ingredients that make possible a creative partnership between the private sector and government. It all adds up to a winning combination of resources that can—and must—find the answers to the problems children face.

Senator Mondale. I want to thank you for this opportunity to say a few words on behalf of organizations for children whose goals and objectives are something I believe in with all my heart. Thank you, Mr. Falk, for agreeing to testify and for making, I think, a very strong statement for what I think is a valid role, the importance of private charities in America today, particularly as they relate to children and youth, which is the jurisdiction of this subcommittee.

How many years have you been volunteering your services for the Easter Seal organiaztion at this point?

Mr. FALK. This is my third year.

Senator MONDALE. Your third year?

Mr. FALK. Yes.

Senator MONDALE. In a sense you contribute your time free and that is a form of charitable voluntary giving in your life, isn't it?

Mr. FALK. Yes. It is time that you devote, of course, without pay, and you do it because you just feel that it should be done.

Senator MONDALE. Have you had a chance to familiarize yourself with the work of the Easter Seal organization, some of the things they are doing, the children they are helping and so on, in a detailed way?

Mr. FALK. I think my main education is through contact with the handicapped kids themselves.

I met a couple hundred of them in the course of these last 3 years. We touched upon it a little bit at breakfast. Let me repeat it now. The thing that I hear from these kids more than anything else, particularly if they are teenagers, certainly if they are going to college, is the problem of getting around in the city.

I often think of myself, of how outraged and furious I would be, if I could not get to a public telephone, if there was no way for me to make a call. It would be just impossible to go through the day without making a call from a public phone booth. But they find it hard to do. They have a terrific sense of humor. On one telethon I remember a girl read a poem about problems in the wheelchair, getting around the city, going to the restroom, and not being able to make a phone call, or get on a bus, or on a subway or get into a building or go into a library.

It is tough enough if you cannot walk, but on top of that we do not have enough sense to provide a ramp for these people. It is hard enough to believe that we have ignored that and certainly something should be done in that area.

The other thing that impresses you is that when you see a crippled kid that is 4 or 5 years old, in some miraculous way they do not fully comprehend what is in store for them. So those kids still have a tremendous wonderment and tremendous curiosity and zest and excitement and smiles with light on their faces.

Then when you see those same kids in their teens, it is beginning to dawn on them. What you strive for and hope for is to keep as much of that same enthusiasm and excitement that you saw in that young 4 year old, to just keep it going, and not get that other feeling—that look in their eyes that they are already dead at 16 and 17. Just frightening.

Senator MONDALE. If this country could do that with children who face a host of barriers, children who are handicapped as you are talking about, or children facing barriers of poverty, race, you see that in so many ways, in so many different environments, the excitement, the optimism, the love of young children. They assume everything is going to be just dandy, and then suddenly they turn 10, 11, 12, and in their early teens, and they realize that their life is going to be different, it is going to be less of something for a reason that is not there, and then suddenly those eyes that were exciting and thrilling, those faces that made you feel good, become vacant or become hateful. That should never happen in this country.

I think if we would dwell on those human facts, rather than all this data that spills out of government reports all the time, and remember we are talking about human beings, not a computer printout, it would help.

Mr. FALK. There is something about handicapped people that distinguishes them from the rest of the population. It is not their handicap. It lies in the area of a desire to accomplish, a desire for achievement, a drive for achievement, which would help everybody, if they were provided with the outlet, because this is a tremnedous drive.

Senator MONDALE. I might ask Mr. Roberts, who is with you, on this very question: Does the Easter Seal Society work to solve the problems of handicapped children? For example, are you working on the problem of people in wheelchairs using telephones? What is happening there?

Mr. ROBERTS. Yes, Senator. The Easter Seal Society has been involved in a campaign, if you will, for some 12 years in conjunction with the President's Committee on Employment of the Handicapped.

As you will appreciate, the problem in the architectural barrier situation is primarily one initially of education, making the public aware of these problems that Mr. Falk has referred to, and then there can be ways of solving them.

Senator MONDALE. Apparently you are active in trying to get the Metro here to have facilities for the handicapped people?

Mr. ROBERTS. Yes, indeed.

Senator MONDALE. Originally there were no plans that would permit handicapped people to use the Metro facilities.

Mr. ROBERTS. That is right. Similar efforts are being conducted around the country on the local community situation.

Senator MONDALE. Now if I might ask a more personal question, how did the Easter Seal organization approach you to help them? Did they write you to come to see you? What did you go through before you decided to help them and so on?

Mr. FALK. They approached me. It is fairly common in the entertainment industry with all of these telethons going on. You get a telephone call from somebody—you do not remember who—but somebody calls you and says there is going to be a telethon, would you come down and answer the telephone. That is the way it began.

I was asked to come down and answer some telephones. I went down there to answer the telephone.

I remember a picture of one of the kids, on a brochure. A little girl. Who looked like Ann Frank. Remember the Ann Frank diary? Big eyes. She did not have any arms. She was using artificial limbs to paint with. A very touching photograph. So I did not just answer the telephone, I got involved. That is how it started.

Senator MONDALE. I assume that in the entertainment business that as soon as you gain some national or local recognition that you can almost expect the charities will come to you and ask you for help of this kind. I think it is very common for charities to seek help.

Mr. FALK. Yes.

Senator MONDALE. How many entertainers do you think feel the same kind of responsibility that you do and respond to help out?

Mr. FALK. Judging from the number of telethons and the number of entertainers that turn up on them, I would say a large majority of them.

When I left Los Angeles, I was in a telethon for arthritis. I am sure a couple hundred entertainers would appear on that—it is becoming more and more popular.

Senator MONDALE. Do entertainers talk about this, about this being a part of maybe public service?

Mr. FALK. As I roam around talking to entertainers, I do not find it a burning issue.

Senator MONDALE. What is burning? [Laughter.]

Mr. FALK. They want to help, but I think like everyone else, they are interested in their lives.

Senator MONDALE. Senator Hathaway.

Senator HATHAWAY. It is a real pleasure to have you with us. If you would feel more comfortable smoking a cigar and sitting in a rumpled trench coat——

Mr. FALK. I would be more comfortable.

Senator HATHAWAY. Do Easter Seal people brief you pretty thoroughly on just where all their money goes and so forth before they ask you to be the national chairman?

Mr. FALK. Before I became a national chairman I had hosted two of the local telethons in New York. I had asked enough questions and spoken to enough children, to handicapped people and volunteers, to get some idea of where the money was going.

I would say that that would not have been a bad idea, if prior to my being asked to be national chairman if they insisted that I go around and see more of their organiaztion. Maybe they were anxious to have me and they did not care.

I could see where that might offend a busy person. You might say you want to be chairman, but first you have to find out about it, and I think it would be a good idea.

Senator **Hathaway**. That is a problem the subcommittee is going to look into, just how the charitable constributions are spent in some organizations.

I do not think that we have any problem with the organization that you are representing. But there are some that are taking in the public's money, and, we think, not spending it for the benefit that they hold themselves out to be spending it for. Of course if they have someone with your caliber at the head of it, that leads the public to believe that the charitable organization is a good one.

Mr. **Falk**. I think most entertainers take these jobs and participate on the basis of faith, blind faith that it is being done right. That is what I believe. I still believe it. I am convinced as far as Easter Seal is concerned, that the money is being spent properly.

Senator **Hathaway**. I know from our own investigation that the Easter Seal is a god organization, but there are some that spend an awful lot of money for administrative costs and not too much money for the benefit of the children they are supposed to be taking care of.

Mr. **Falk**. I know I am bombarded, as a lot of people are, with requests for donations, and you have no way of judging it. You get it in the mail. You do not know whether the organization is any good or not. You do not know where the money is going. You do not know what is happening. It is becoming increasingly popular among people to read all of this literature with a somewhat cynical response. Somewhere, some part of you is saying you are not quite sure what is happening to it.

I think maybe that decreases the power of these appeals.

Senator **Hathaway**. I understand that Reader's Digest has an article in its most recent issue—I have not read it—listing certain organiaztions that are not worthy of making a contribution to.

Senator **Mondale**. Some people hardly give anything to charity.

Senator **Hathaway**. Yes. I will not mention any names, because that name is usually in the paper every day.

Do you think that the Federal Government ought to have a closer scrutiny over charitable organizations to protect the public and to investigate just what they are doing with their money?

Mr. **Falk**. Well, I am not qualified to really answer that question. I can only answer it theoretically, Senator. That is hypothetically I can see abuses without Government regulation. Hypothetically I can see abuses with Government regulation. It always goes back to the individuals that are involved.

If the Government does regulate and they get good people regulating it, then we are in good shape.

Senator **Hathaway**. There are some areas that you suggested where the Federal Government could be of help, such as mandating the airlines, for example, to make sure that they make provisions for taking care of handicapped people.

Mr. **Falk**. Yes. I would like to see the government on all levels, Federal, State and local government, actively and vigorously getting into the area of architectural barriers. If Washington is paying for a lot of housing, if Washington is paying for a lot of transportation, Washington is in a position to insist upon these things being done. I think that should be done right away.

There is absolutely no reason in the world just because you cannot walk that it means you cannot get on public transportation. Those are the people that need it more than anybody else.

Senator HATHAWAY. So in areas where the Federal Government is spending money, you would say that we should make provision for ramps and other devices that would be helpful to the handicapped?

Mr. FALK. Yes. I think it is outrageous that it has not been done. There is no question about it.

The last time I was here I spoke with a boy who had been in a car accident, who had a busted-up spine and could not walk He was going to college. That is all he could talk about, that you cannot get on a bus, you cannot go anywhere, you cannot do anything. I do not know why that should not be done.

Senator HATHAWAY. I do not either. I think it is a good idea.

I certainly appreciate, and I know Senator Mondale does also, the fact that you were willing to appear here and testify, even though the poor and other disenfranchised do not have much of a lobby here in Washington. It is very generous of you and many other notables to serve as chairmen of these organizations and come here and give us the benefit of your thoughts.

Mr. FALK. Thank you very much. I wanted to say one other thing. I do not know if this is within your area or not. But another problem that handicapped people face is the attitude of the rest of us.

I had a very dear friend who was a blind woman, and it was also a source of amusement—it was not in the beginning, in the beginning it was difficult to go in a restaurant and sit there, but after a while we started to laugh about it. It is the strangest thing. You sit there with a blind person. The waiter comes up. Now she can hear just as well as anybody else and talk as well as anybody else.

This waiter would say, "What will you have, sir?"

I said, "Cup of coffee and a ham sandwich."

The waiter will say, "What will she have?" [Speaking in a very low voice.]

It is just awful. The rest of us just have to realize that you have to treat handicapped people just like anybody else. That is one of the big problems. I do not know what you fellows can do about it. That is really a severe problem.

To get the rest of the population to respond to handicapped people in a normal fashion, that would help a lot.

Senator MONDALE. I would like to ask just a few questions about entertainment personnel and fund raising.

Before I do, I want to say as far as we know that the Easter Seal organization is one of the finest in the country. I am not asking about this organization.

Suppose there is a charity that is wasting enormous amounts of money or suppose a worse case, one where they are putting it in their pocket and it is not going for the purpose intended. They go see someone in the entertainment industry and say, will you not help us, we are going to help certain kinds of children. The purpose is obviously commendable and necessary and so forth.

How likely is it, in your opinion, that that person really checks to know whether he or she is being used?

Mr. FALK. I think it is very unlikely, Senator, that anybody would check.

Senator MONDALE. So what we are betting on is that most of these charities are reputable, and we believe in the good faith of organizations, but it would be possible for an occasional type that I have described to come in and get the help of a person who believed in them and did not know. If that were true, and the public sees them requesting funds, would you not suspect that their very credibility in the public respect is helpful in raising money? That is why people in the entertainment field are asked, would not you think so?

Mr. FALK. Yes.

Senator MONDALE. Since this is a very prominent part of fundraising, I am wondering—I do not have any remedies for it—but at least there should be some way for entertainers to turn to some source of information so they know that those appealing to them for help are on the level. We are going to have other witnesses here today that may tell us how that can be done.

Mr. Roberts, maybe you would like to respond. Let us take the case of a prominent entertainer who is approached by a charity for help. Let us assume, as I do, that most of them are just fine. Then one comes along that is not. How does that person check to make sure that he or she is helping a reputable organization? What is the best way of doing it?

Mr. ROBERTS. Well, there are some sources, and of course the sources that are available to prominent entertainers are no different than the sources available to the general public. The National Health Council, with which you are familiar and I understand is testifying later, does have information on the major voluntary organizations, including their annual reports. The members of that council do subscribe to the basic guidelines that are laid down.

The individual organizations do have printed financial reports on a local basis. Of course there are the Better Business Bureaus. I would guess probably the best source, if anyone had the time to check out these things, would be to check with the recipients of the service, as Mr. Falk has indicated he has had some opportunities to do.

But there are existing sources and I would start with the organization's annual report, recognizing that they all require of course a certain amount of interpretation. I do not know if most of the potential contributors or participants, voluntary participants, really have the time to explore those areas.

Senator **Mondale**. What do you do? You are a reputable charity. If you find or know of the existence of a questionable charity, what do you do? Is that classified?

Mr. **Roberts**. I am sorry, would you repeat that?

Senator **Mondale**. What do you do if you see an outfit that you think is operating unethically in the charity field? Do you do anything? Do you express your concern, say, to the National Health Council?

Mr. **Roberts**. Yes. I would the appropriate representatives of our organization, if they had substantial evidence, would report it to the Health Council.

Senator **Mondale**. Has that happened? I am not going to ask for specifics. Has that happened where you have been concerned about a charity and reported it to, say, the Health Council?

Mr. **Roberts**. I would expect it has, sir, in the past. I do not happen to have any personal knowledge, but I would suspect it has happened.

Senator **Mondale**. Thank you very, very much. We are most grateful to you for starting these hearings in this important fashion. Most grateful to you.

Mr. **Falk**. Thank you, Senator.

Senator **Mondale**. Our next witness is Arthur J. Grimes, Director of Membership, National Health Council.

We are very pleased to have you with us this morning. I guess you have a written statement.

You may proceed as you wish.

STATEMENT OF ARTHUR J. GRIMES, DIRECTOR OF MEMBERSHIP, NATIONAL HEALTH COUNCIL; ACCOMPANIED BY ARTHUR SALISBURY, MD., VICE PRESIDENT FOR MEDICAL SERVICES, NATIONAL FOUNDATION—MARCH OF DIMES

Mr. **Grimes**. Senator Mondale, I would like to thank you for inviting the National Health Council to present testimony to you and your Subcommittee on Children and Youth.

In so doing, I would like to introduce a representative of the National Health Council, Dr. Arthur Salisbury, who is the vice president for Medical Services for the National Foundation, one of the National Health Council member agencies.

Dr. Salisbury is a Boston pediatrician and former consultant in research and development in maternal child health to the Massachusetts Committee on Children and Youth. He is an eminent authority on public health.

As vice president for Medical Services of the National Foundation, he is responsible for the initiation and operation of a broad range of services for the prevention and treatment of birth defects.

Dr. Salisbury is a native of Nebraska. He is a graduate of Yale University. He is a Harvard Medical School graduate, cum laude, Harvard School of Public Health.

Following his internship at Johns Hopkins Hospital in Baltimore, resident training in Children's Hospital in Boston, Dr. Salisbury practiced pediatrics in Boston until 1962.

There are many other posts that he has held. I believe these have been made available to you, and I will not attempt to repeat them here, but I would like to point out that in these posts he has carried out studies and planning of community health services and consulted in drafting and enacting of legislation, involving State, local, voluntary agencies, both for pediatric, and for maternal and child health problems.

Dr. Salisbury is a Fellow of the American Academy of Pediatrics as well as American Public Health Association.

I would like to present Dr. Salisbury to you for some comments.

Senator MONDALE. We are very pleased to have you with us here this morning.

We will place your statements in the record at the conclusion of your testimony, and you may proceed as you wish.

Dr. SALISBURY. I appreciate the opportunity to be here today and to present some thoughts on the role of voluntary health agencies in promoting and improving the health of children and youth.

Many voluntary health agencies have a long history of significant achievement against illness in children. Perhaps the most outstanding was the conquest of poliomyelitis by the National Foundation—March of Dimes, working almost alone in the field between 1938 and 1955.

The American Cancer Society has been, and continues to be, a leading force against malignant disease in children.

The American Heart Association is to be credited for significant advances against all forms of heart disease in childhood.

These are only three examples of effective productivity by voluntary health agencies. There are a number of others whose accomplishmnts are well known and widely recognized.

We should look at this question, why and how have voluntary health organization succeeded and contributed to the betterment of child health in America?

First, because Americans like to help each other in a one-to-one relationship. Americans like sharing their dollars, their time and their energies to help people in trouble. This has been our habit and our tradition since the first landings in this country.

The voluntary nonmandatory effort has a long history on our shores. The voluntary effort and the gift are easily traceable and recordable in the result.

Voluntary health organizations are constantly subject to accountability for their productivity and accomplishment. These organizations have no place "to pass the buck." If they do not produce to the satisfaction of the citizens whose giving supports their operations, they cease to function.

Senator MONDALE. Would you yield there?

Do you think that is always the case?

Let me ask a couple of hard questions.

I know that you are realistic enough to know that even assuming that a large proportion of charities are decent, as I do, that the occasional indecent or wasteful charity and the infrequently corrupt charity does come along from time to time.

Now, one of our central questions is going to be, how can we try to diminish the frequency of such unhappy events?

How can citizens protect themselves against it?

How can the valid charities be saved from the difficulties that those charities raise for them, and above all, how can the children who are supposed to benefit from this money and do not be protected?

Now, your sentence says, "If they do not produce to the satisfaction of the citizens whose giving supports their operations, they cease to function."

Is it not perfectly possible today for an incompetent or corrupt charity under shrewd management to carry on beautifully without anybody knowing about it?

Dr. SALISBURY. I agree with President Lincoln. You cannot fool all the people all of the time.

Senator MONDALE. You have to know something, and some people claim executive privilege and others just do not tell you anything. How do you know?

I know that is what this organization is about. I know what you are trying to do. That is why I want you to help me. You must grapple with this problem all the time.

I find that sentence, in my opinion, ought to have been conditioned a little bit by saying most of the time people know, and will turn their backs on unsatisfactory charity.

Dr. SALISBURY. We have some thoughts on this in the testimony of Mr. Grimes.

Senator MONDALE. We will wait for that then.

Dr. SALISBURY. There is an answer which the National Health Council can propose, I believe.

One of the great strengths of voluntary agencies is that they have great flexibility. They have the ability to be a bit visionary, to take a chance, to think of a concept which may be outside the province of any official tax-supported agency.

Experimentation and demonstration by voluntary agencies thus provides the models on which tax-supported programs can be designed and continued.

Senator MONDALE. I think that is one of the strongest arguments, incidentally, that gives you great flexibility.

Dr. SALISBURY. That, we see as our major function, demonstration and experimentation.

Voluntary agencies depend for their existence and for their accomplishment on person-to-person, peer-to-peer communication. Voluntary agencies succeed because their staff and their volunteers bring to the man on the street, to the student in school or college, or to the housewife in her home, a message and a reason for being concerned and becoming involved.

Mr. Falk has just given us a very good example of this.

Voluntary agencies and their millions of volunteers bring individual citizens into participation and into active determination of decisions which affect the quality of life for all citizens in their town, State or nation.

I have spoken of the accomplishments of voluntary agencies in improving child health, and I have given you some reasons for underlying the success of these organizations.

Now, let me turn to our thinking about the health of children in our Nation.

Let me cite just a few statistics and facts to indicate the state of child health in the United States.

At least 3 percent of children are mentally retarded. Seven percent have serious defects present before and since birth. Fifteen percent of some adolescents in our society have chronic health problems of a severity great enough to be detrimental to their function and productivity. Infectious diseases which are totally preventable persist because of incomplete immunization.

The increasing rates of juvenile delinquency indicate the magnitude of emotional disturbance of our children.

And why is this the state of child health? I will give you a simplastic analysis of the problem. After 25 years of hearing, reading, and speaking complex analyses, I still find the simplistic approach to be the most revealing.

1. Children are not born healthy.

Approximately 7 percent of babies born in this country weigh less than 5½ pounds at birth. This is to say that they are of low birth weight and, in almost all of them, their low weight at birth is a manifestation of some abnormality of the pregnancy. These babies account for two-thirds of the deaths of babies in the first year of life and for the majority of mentally retarded or otherwise damaged infants and children.

As best we can estimate, 25 percent of conceptions in this country end in the death of the baby before birth or in the first year of life. Also of great concern is the fact that 7 percent of babies are born with birth defects other than low birth weight. Many of these die early in life but others survive with continuing health problems.

The point is that more attention and better attention must be given to the prenatal period if we are to reduce infant mortality and morbidity. We must design and implement a system for providing prenatal care and delivery services to assure that every woman receives all the care she needs, whether it be usual, standard care for the normal pregnancy, or the highly technical, specialized care required if pregnancies at high risk are to have a satisfactory outcome. Also, the system must assure that every woman has access to the system early and throughout the pregnancy.

The critical importance of maternal-fetal nutrition in determining the outcome of pregnancy must receive more than recognition. We must do more than just say that all pregnant women should have a diet adequate in calories, protein, minerals, and vitamins. We should be acting to assure this, not just recommending it.

Much more attention must be given to the environment in which the fetus develops and grows. I mean the intrauterine environment during pregnancy.

Our knowledge of the effect of such factors as medications and other drugs and of external pollutants, such as chemicals and gases, is extremely deficient. Research must be expanded to answer the questions about the effect, if any, of these agents.

Finally, we must increase efforts to inform and educate women about what they themselves can do to reduce the risks of having an unhealthy baby.

2. Those not born healthy do not all get the care and services they need.

Despite the considerable effort of several voluntary health agencies and the Federal-State crippled children's program under title V of the Social Security Act, the fact remains that health services and medical care for children with birth defects are not adequate. Where available, these services are usually limited in scope and restrictive as to eligibility by categorical diagnosis.

Thus far, we have been unable to recruit, organize, and employ the needed medical and associated resources into a workable plan for producing services which will minimize or eliminate congenital health defects.

Of considerable importance is that we are dealing with an ever-increasing financial barrier. Hopefully, we have now begun a serious effort to reduce this barrier through health and medical care insurance coverage for all persons and for all needed services.

Nonetheless, the problems of marshaling and organizing the other necessary resources, trained personnel, and adequate facilities, must also be solved.

3. Those who are born healthy do not remain healthy.

If every child in this country received the quality and quantity of medical care now available to and utilized by families in our stable, wealthy suburban areas, the incidence of physical illnesses have serious consequence in childhood or later in adult life would probably drop by 50 percent. This is my estimate, and I suspect it is a conservative one.

But we are not providing every child with the best health services and medical care we know how to provide. And when these unserved children are studied, we find incomplete immunizations, nutritional inadequacy, an increased number of respiratory and other infections, and a high incidence of acquired disease, often beyond the point of cure, which will persist into adulthood and diminish life expectancy and productivity.

The keys to providing every child with needed health services and medical care lie in the words "availability, accessibility, and utilization" of the required expertise and resources.

Time does permit a full discussion of these factors, but I can summarize in a few statements.

More resources are going to be needed if we are to make services universally available, but it does not necessarily follow that our existing stereotypes and definitions of resources, especially in personnel, will be followed in the future.

Perhaps the primary barrier to accessibility is the financial one, but we must not neglect the aspects of the frustrating complexities, the bewildering differences, and the dehumanizing redtape through which families must fight their way to find medical care and health services. The best system and the most sophisticated resources will come to nothing unless and until families are motivated to seek and utilize these services.

We have yet to find ways to instill and propagate the concept of health maintenance as a top priority in family life. Call this "health education" or "health awareness," or whatever, we must do a better job of it, starting as early as possible in childhood.

In the foregoing, there has been little reference to mental or emotional disorders. I am sure this subject has been discussed before this committee by others who are experts in the field. I will only add that emotional diability, arising in childhood and manifesting itself in antisocietal, aggressive behavior and in great personal unhappiness will not decrease until we find ways to reduce the poverty, the despair, the cynicism and the rejection by society into which so many children are born and with which they grow up. This may be one of the most important challenges facing our Nation.

My subject has been the health and ill health of children, but the cycle is endless—child—adult—child—adult. Tomorrow we will be what we produce today. Tomorrow does happen today.

Thank you, sir.

Senator MONDALE. Thank you very much for a very strong statement. This is something that this committee has been very worried about for a long time, these simple fundamental points of health in pregnancy, at the time of delivery and so on.

As you know, so many studies confirm precisely what you are saying. The irony of it is that it would be much cheaper, let alone more humane, to do this job properly at this time than to wait until later.

I am hoping that in this year, when hopefully we are going to get around to some kind of national health insurance program, that there will be a sophisticated adequate focus on the indispensability of a decent program for preventive health and pregnancy in the earliest years of life.

The figures on mental retardation—I think there is a very high correlation betwen premature births, underweight, and subnormalcy.

I think one reason we permit problems in pregnancy in the early years is just inexcusable. I hope that they would see the fundamental nature of this issue.

[The prepared statement of Dr. Salisbury follows:]

February 4, 1974

Testimony of Arthur J. Salisbury, M.D., M.P.H.,
Representing The National Health Council,
Before the Subcommittee on Children and Youth,
United States Senate, Honorable Walter F. Mondale,
Chairman

I am Dr. Arthur Salisbury, Vice President for Medical Services of The National Foundation - March of Dimes, a member agency of The National Health Council. I formerly was a practicing pediatrician.

I appreciate the opportunity to appear before this Subcommittee today and to present some thoughts on the role of voluntary health agencies in promoting and improving the health of children and youth.

Many voluntary health agencies have a long history of significant achievement against illness in children. Perhaps the most outstanding was the conquest of poliomyelitis by The National Foundation - March of Dimes, working almost alone in the field between 1938 and 1955. The American Cancer Society has been, and continues to be, a leading force against malignant disease in children. The American Heart Association is to be credited for significant advances against all forms of heart disease in childhood. These are only three examples of effective productivity by voluntary health agencies. There are a number of others whose accomplishments are well known and widely recognized.

We should look at this question: Why and how have voluntary health organizations succeeded and contributed to the betterment of child health in America? First, because Americans like to help each other in a one-to-one relationship. Americans like sharing their dollars, their time and their energies to help people in trouble. This has been our habit and our tradition since the first landings from England and Europe. The voluntary, nonmandatory effort has a long history on our shores. The voluntary effort, and the gift, are easily traceable and recordable in the result.

Voluntary health organizations are constantly subject to accountability for their productivity and accomplishment. These organizations have no place to "pass the buck". If they do not produce to the satisfaction of the citizens whose giving supports their operations they cease to function. Voluntary organizations have no Congress or Legislature to blame if they do not produce.

Voluntary agencies have flexibility. They have the ability to be a bit visionary, to take a chance, to think of a concept which may be outside the province of any official, tax-supported agency. Experimentation and demonstration by voluntary agencies thus provides the models on which tax-supported programs can be designed and continued.

Voluntary agencies depend for their existence and for their accomplishment on person-to-person, peer-to-peer communication. Voluntary agencies succeed because their staff and their volunteers bring to the man on the street, to the student in school or college, or to the housewife in her home a message and a reason for being concerned and becoming involved. Voluntary agencies and their millions of volunteers bring individual citizens into participation and into active determination of decisions which affect the quality of life for all citizens in their town, state or nation.

I have spoken of the accomplishments of voluntary agencies in improving child health and I have given you some reasons underlying the success of these organizations. Now let me turn to our thinking about the health of children in our nation.

Let me cite just a few statistics and facts to indicate the state of child health in the United States. At least three percent of children are mentally retarded. Seven percent have serious defects present before and since birth. Fifteen percent of some adolescents in our society have chronic health problems of a severity great enough to be detrimental to their function and productivity. Infectious diseases which are totally preventable persist because of incomplete immunization. The increasing rates of juvenile delinquency indicate the magnitude of emotional disturbance of our children.

And why is this the state of child health? I will give you a simplistic analysis of the problem. After twenty-five years of hearing, reading and speaking complex analyses, I still find the simplistic approach to be the most revealing.

1. Children are not born healthy.

Approximately seven percent of babies born in this country weigh less than five and one-half pounds at birth. This is to say that they are of low birth weight and, in almost all of them, their low weight at birth is a manifestation of some abnormality of the pregnancy. These babies account for two-thirds of the deaths of babies in the first year of life and for the majority of mentally retarded or otherwise damaged infants and children.

Also of great concern is the fact that seven percent of babies are born with birth defects other than low birth weight. Many of these die early in life but others survive with continuing health problems.

The point is that more attention and better attention must be given to the prenatal period if we are to reduce infant mortality and morbidity. We must design and implement a system for providing prenatal care and delivery services to assure that every woman receives all the care she needs, whether it be usual, standard care for the normal pregnancy or the highly technical, specialized care required if pregnancies at high risk are to have a satisfactory outcome. Also, the system must assure that every woman has access to the system early and throughout the pregnancy.

The critical importance of maternal-fetal nutrition in determining the outcome of pregnancy must receive more than recognition. We must do more than just say that all pregnant women should have a diet adequate in calories, protein, minerals and vitamins. We should be acting to assure this, not just recommending it.

Much more attention must be given to the environment in which the fetus develops and grows. I mean the intrauterine environment during pregnancy. Our knowledge of the effect of such factors as medications and other drugs and of external pollutants such as chemicals and gases is extremely deficient. Research must be expanded to answer the questions about the affect, if any, of these agents.

Finally, we must increase efforts to inform and educate women about what they themselves can do to reduce the risks of having an unhealthy baby.

2. Those not born healthy do not all get the care and services they need.

Despite the considerable effort of several voluntary health agencies and the Federal-State Crippled Children's Program under Title V of the Social Security Act, the fact remains that health services and medical care for children with birth defects are not adequate. Where available, these services are usually limited in scope and restrictive as to eligibility by categorical diagnosis.

Thus far, we have been unable to recruit, organize and employ the needed medical and associated resources into a workable plan for producing services which will minimize or eliminate congenital health defects. Of considerable importance is that we are dealing with an ever-increasing financial barrier. Hopefully, we have now begun a serious effort to reduce this barrier through health and medical care insurance coverage for all persons and for all needed services. Nonetheless, the problems of marshaling and organizing the other necessary resources, trained personnel and adequate facilities, must also be solved.

3. Those who are born healthy do not remain healthy.

If every child in this country received the quality and quantity of medical care now available to and utilized by families in our stable, wealthy suburban areas, the incidence of physical illnesses having serious consequence in childhood or later in adult life would probably drop by fifty percent. This is my estimate and I suspect it is a conservative one.

But we are not providing every child with the best health services and medical care we know how to provide. And when these unserved children are studied we find incomplete immunizations, nutritional inadequacy, an increased number of respiratory and other infections and a high incidence of acquired disease, often beyond the point of cure, which will persist into adulthood and diminish life expectancy and productivity.

The keys to providing every child with needed health services and medical care lie in the words availability, accessibility and utilization of the required expertise and resources. Time does permit a full discussion of these factors, but we can summarize in a few statements.

More resources are going to be needed if we are to make services universally available, but it does not necessarily follow that our existing stereotypes and definitions of resources, especially in personnel, will be followed in the future.

Perhaps the primary barrier to accessibility is the financial one, but we must not neglect the aspects of the frustrating complexities, the bewildering diffuseness and the dehumanizing red tape through which families must fight their way to find medical care and health services.

The best system and the most sophisticated resources will come to nothing unless and until families are motivated to seek and utilize these services. We have yet to find ways to instill and propagate the concept of health maintenance as a top priority in family life. Call this "health education" or "health awareness" or whatever, we must do a better job of it, starting as early as possible in childhood.

In the foregoing, there has been little reference to mental or emotional disorders. I am sure this subject has been discussed before this Committee by others who are experts in the field. I will only add that emotional disability, arising in childhood and manifesting itself in antisocietal, aggressive behavior and in great personal unhappiness will not decrease until we find ways to reduce the poverty, the despair, the cynicism and the rejection by society into which so many children are born and with which they grow up. This may well be the most important challenge facing our nation.

My subject has been the health and ill health of children, but the cycle is endless -- child - adult - child - adult. Tomorrow we will be what we produce today. Tomorrow does happen today.

Senator MONDALE. Mr. Grimes, you may proceed.

Mr. GRIMES. As you know, I am director of membership for the National Health Council. I have had responsibility for the council's membership standards program over the past 12 years.

It might be useful at this point to say a few words about what the National Health Council is and what it does, to provide a perspective for our recommendations.

The National Health Council is a private nonprofit corporation that has 75 members. Our members are organizations, not individuals.

They come from the professional associations in the health field, from the nonprofit voluntary health agencies, from business corporations and the Federal Government.

Senator MONDALE. You say you represent how many?

Mr. GRIMES. The National Voluntary Health Agencies? There are 19 in the council's membership.

Senator MONDALE. Do you have an estimate of how many there are?

Mr. GRIMES. Well, when we are talking about total voluntary organizations in the country at all levels of operation, there are probably hundreds of thousands of them. When we talk about national level organizations, those with services that cover the country as a whole, there are probably 50 some-odd.

Senator MONDALE. Of the 50, you represent 19?

Mr. GRIMES. Nineteen of them.

Senator MONDALE. Why is it that the others do not belong? How does that work?

Mr. GRIMES. The council's membership is open to those national organizations that meet our standards of eligibility.

I should point out, Mr. Chairman, the council does represent most of the volunteer health organizations of any size within the United States. Most of the other groups are small organizations.

Senator MONDALE. So you represent virtually all of the major national health charities?

Mr. GRIMES. Right.

Senator MONDALE. Are there any major national health charities not affiliated with you?

Mr. GRIMES. Yes, there are a few.

Senator MONDALE. Who are they?

Mr. GRIMES. Well, Planned Parenthood-World Population does not belong. The National Association for Retarded Children does not belong. I would hasten to add that both of these organizations at one time did belong to the National Health Council. They withdrew for reasons that probably the organizations themselves can best describe.

But I would like to point out that the council's membership is continually in flux. The leadership of the voluntary organizations are volunteers. Sometimes their priorities for the organization indicates to them the need to put higher on their list some of their own agency priorities than belonging to an umbrella organization, the direct relevance of which they do not realize immediately.

Senator MONDALE. How much do you charge for your service?

Mr. **Grimes**. It is a percentage of their gross national income, thus on ability to pay basis.

Senator **Mondale**. Can you tell me what that is or is it classified?

Mr. **Grimes**. No, it is not. The minimum dues for any national voluntary health agency starts at $500. Multimillion dollar voluntary agencies pay a maximum of $23,000 a year.

There is a separate dues structure for each category of council membership. Rather than going into the details of this, I probably could cover a good part of it by merely saying that the council's membership, besides the national voluntary health agency, is composed of some 35 professional associations. This is the health establishment, the American Medical Association, the American Nurses Association, American Occupational Therapy Association, et cetera. Dues for these members range from a minimum of $100 to a maximum of $11,000.

This type of organization also participates in the council's discussions.

The third category is Associate membership. These are organizations whose interests may be much broader than health, but which have a strong health interest, that is, civic associations such as the Association of Junior Leagues, business and professional women's clubs. Each has a strong health interest, but are concerned with other activities. For them there is a minimum "service fee" of $150. Most also make a supplemental contribution to the NNC.

Finally the council's membership also involves Federal Government agencies that are concerned with health, so that the dialog within the council is representative of both the private and the public health organizations. There are no dues paid by Federal agency members.

Recommendations that come of these discussions are made available to a broad range of leadership in the country. The council's voluntary agency and professional association membership is determined by our standards for eligibility. Requirements for membership in the council for National Voluntary Health Agencies are much more stringent than they are for the professional associations or for the Associate members.

The reason for this is that the voluntary health organizations themselves decided that reputability is important to such organizations that belong to the National Health Council. Thus they police themselves through standards that they consider standards of organizational excellence.

My purpose today is to describe the importance of a viable voluntary health movement to improve the health and quality of life for people of the United States including children and youth.

The 19 national voluntary health agencies represented in the council membership include the American Cancer Society, the American Heart Association and the National Easter Seal Society, to mention a few of the largest. Each of these raised over $50 million in 1972. Also included in council membership are some of the newer and small voluntary health organizations such as the National Cystic Fibrosis Research Foundation, the National Multiple Sclerosis Society and the National Society for Autistic Children.

This gives you an idea of the ranges and types of organizations that belonged to the National Health Council.

Dr. Salisbury has pointed out, one of the best examples, of the value of the voluntary private sector concerned with health in the accomplishments of the National Foundation—March of Dimes. Through the work of this organization we have today a vaccine against polio which formerly took a heavy toll in the lives and health of children and youth. Conquering this disease was made possible with private funds contributed directly by the people of this Nation, including yourselves, through the March of Dimes.

It is important to note that each one of the council's voluntary health agencies is concerned with the health of children and youth; some of them specifically within that age category, others with the health of people of all ages. A similar success, reducing the toll from tuberculosis, is due in significant measure to professional and public education services of the National Tuberculosis and Respiratory Disease Association—now known as the American Lung Association.

There are many other successes due to our investments of time and money in the voluntary health movement. Most are not as dramatic as that of conquering TB or polio. However, successful rehabilitation of a crippled child, is just as important. Significant breakthroughs are promised from the work of the voluntary agencies concerned with kidney disease, hemophilia, and diabetes to mention only a few.

The importance of the voluntary health movement is characterized by their programs and accomplishments in:

1. Creation of awareness of specific health problems among large numbers of people through free-ranging, uninhibited public education campaigns that enhance the use of preventives, precautions, and medical services.

2. Support for community health services engendered and augmented by practical person-to-person services which constitute a morale-building factor speeding recovery for the afflicted.

3. Pioneering research in specific disease categories which make it possible to take advantage swiftly of breakthroughs in discovery of causes, remedies and prevention of many diseases.

4. Recruitment and utilization of volunteers who, as a result of their agency experience, develop satisfaction and skills that make them the new community leaders, urgently needed in our rapidly changing culture.

Management techniques evolved by the business world are employed by the major health agencies. They make formal study of their goals and structure, prepare annual budgets for approval by their boards of directors, use electronic data-processing to record their fiscal affairs, keep track of administrative actions and spot trends and changes in public attitudes. This in no way detracts from their humanitarian purposes. The objectives remain altruistic, while such procedures as job classification, performance review, cost analyses and evaluation studies of the particular activities protect the contributors' dollars.

One of the most significant joint actions taken by these agencies to date was the adoption in 1964 of "Standards of Accounting and

Financial Reporting for Voluntary Health and Welfare Organizations. These reporting standards were developed by the National Health Council and the National Assembly for Social Policy and Development to meet the need for better financial data upon which contributors could base decisions. Lack of common terminology and procedures in public financial reporting had made it difficult to appraise and compare the activities of individual agencies. Now, a format has been developed by which each agency can summarize its figures.

By using the same ground rules for items of similar nature, there is comparability of financial reporting. The essence of the Standards were adopted in 1973 as the generally "accepted accounting principles" by the American Institute of Certified Public Accountants.

Senator Mondale, this is a breakthrough because we have been trying for many years to get the auditing profession to adopt a uniform set of standards so that the public would be able to make comparisons between agencies to determine how the money was being spent on a comparable basis from agency to agency. I believe we have reached that goal. Beginning with the fiscal years ending in 1975, in order to obtain an unqualified CPA audit opinion, voluntary health and welfare organiaztions at all levels of operation must be using the principles of the uniform accounting standards.

In the Standards sources of income are identified within common categories and expenditures are in two major divisions: (1) "Program Services" such as research, patient services, public education, professional education, community services and, (2) "Supporting Services," which includes the general operating services such as administration and fund raising.

At the time most of the national voluntary health and welfare agencies have endorsed and are implementing the Standards of Accounting and Financial Reporting. The council, in 1974, is engaged in a joint campaign with the United Way of America, the National Assembly and the American Institute of Certified Public Accountants, as well as with representatives of the National Association of Attorneys General, to achieve their universal use.

The council's criteria for eligibility for membership, including full disclosure according to the uniform accounting standards, have gained wide acceptance in the field as the recommended standards for organization and operation for voluntary agencies in the health field in the USA. As indicated, they provide sound basic rules for the benefits of the nonprofit health organizations and help to promote the public's interest, trust and confidence in volunteerism.

The next section of my testimony is concerned with the use and limitations of financial ratios for judging the efficiency and effectiveness of charitable organizations.

Since some of the activities undertaken by many voluntary health and welfare organizations ultimately, necessarily and simultaneously serve the program objectives of an agency as well as its management activities and the raising of funds to carry on these other functions, it may not be possible, even with the most meticulous accounting, to completely isolate and precisely report all of an agency's expenditures for any single function, whether it be fund raising, management and general, or a particular program service.

It is fully recognized that the most serious single concern of many contributors, and of many governmental bodies that require public reporting of the finances of certain charitable organizations, is to ascertain agencies' fund-raising costs, and the relationship of these to total funds raised. This concern and preoccupation—and let me emphasize that I think it is preoccupation—has also led to a natural and understandable interest in establishing comparative criteria, or even arbitrary limits, for what might be considered a proper percentage of fundraising costs.

If it were possible to prescribe a single basis for comparison, or method calculating a fundraising cost ratio that would be applicable uniformly, such efforts would be most useful. Facts do not appear, however, to justify expectation that this can be done at this time. The most serious obstacles to formulation of a universally applicable method of calculating fundraising cost ratios—and, therefore, to prescribe a proper fundraising cost percentage—are these:

1. It may not be possible to identify and separately report all of any agency's fundraising costs.

2. Many agencies, in addition to support from the public that they obtain directly, receive public support indirectly through federated and other fundraising organizations whose fundraising cost they may not be able to ascertain.

3. Bequests or governmental grants, that may be received years after they were solicited or be entirely gratuitous, may preclude any meaningful matching of support and revenue with fundraising costs.

4. Only relatively large agencies can be expected to have accounting staffs and systems that will permit full separate accounting for costs of multiple fundraising activities during a given year—for example, operating fund campaigns, a building fund campaign, special fundraising events.

The criticism is that pressing too hard in terms of full disclosure of each specific type of fundraising, drives up administrative costs. We have to be practical about this and try to reach a realistic level of accounting for full disclosure.

The foregoing considerations suggest that a great deal of caution be exercised by individuals or groups who attempt comparative evaluations of voluntary agencies' fundraising costs, or who attempt to devise standard methods of calculating fundraising cost percentages or to set ceilings for them. Other financial ratios that are sometimes used in efforts to appraise voluntary agencies, such as of total administrative or overhead costs to total expenditures, are subject to the same cautions and limitations.

A 1973 study of the NHC voluntary health agencies reporting according to the uniform accounting standards for all levels of operation, expenditures for fundraising did not exceed one-third of income for 1972. Most have fundraising costs less than 25 percent of income.

This is based on the maximum comparability that is available to us, using the new uniform accounting standards that have been in operation by most of these agencies since 1963.

The next subject is ethical fundraising and promotion publicity. The National Health Council requires that its voluntary health agency members' fundraising and promotion programs be conducted according to the following standards:

(a) Methods of promotion—only ethical methods of fundraising are employed by the organization or on its behalf. The publicity and promotional activities in connection with fundraising encourages respect for clientele and presents factually accurate material describing the needs served, volume, and character of services offered and accomplishments. Protection is afforded against unauthorized use of the organization's contributor lists.

Next is fundraising methods. The organization does not mail unordered tickets or commercial merchandise with request for money in return. The telephone is not used for soliciting funds from the general public. In terms of general public, we are talking about organizations that solicit money from someone who is not a member of their constituency. No arrangements are entered into to raise funds on a commission basis.

Next, fundraising costs—the organization is pledged to honest reporting of fundraising costs, and to the development of improved standards of recording such costs. Fundraising costs are disclosed to contributors and to general public in the organization's annual report.

These requirements are based on the "Standards of Fundraising Practice for Social Welfare Organizations," promulgated by the National Assembly for Social Policy and Development and over 35 other national health and welfare organizations, in the mid-1950's. These organizations are still supporting basic ethics in terms of fundraising standards.

In your request for testimony, you had asked for suggestions for specific Federal legislation that could help charities that serve children. I have three suggestions for Federal legislation that I think are appropriate to serve the interests of the charitable organizations that could enable them to do a better job.

In addressing ourselves to the question of what Federal legislation may be needed to protect the public interest in voluntary solicitations, we need to assess the value to our Nation of the private philanthropic initiative in defining and contributing to the public good. It is worthwhile? It might be useful to illustrate the value of private philanthropic efforts in increasing the resources for improvement in quality of life, and particularly the improvement of health.

If you were to examine the record to see when Federal funds became available in significant amounts for the support of health related research, you would observe that this began after the victory over polio was declared in 1955. There was a spurt right after Sputnik also, but it was an upsurge in an already growing trend.

You will recall that this battle was initiated by the National Foundation Against Infantile Poliomyelitis (March of Dimes). The winning of their victory was due primarily to the investments by this organization in research and quick application of the results from research towards that end.

While the scientific community, including the voluntary health agencies, welcomed the addition of a large measure of support for research in recent years and the foresighted wisdom of the Congress and the President in making this possible, many of us would question the wisdom of reducing incentives for encouraging contributions of money and time from the private sector to the point where we become solely dependent upon only the Government for support of this service.

Senator **Mondale.** I notice your statement reflects proposals to increase incentives. Do you think that the tax laws now do not adequately create an incentive for charitable giving?

Mr. **Grimes.** Our current provisions in the tax law do have some incentives for voluntary giving as you know.

Senator **Mondale.** Do you want some more?

Mr. **Grimes.** We want more. We feel that the current ones are under attack, and we want to try to make sure that the ones that we have are not taken away.

Senator **Mondale.** I understand that. You say you want increased incentives.

Mr. **Grimes.** I did not hear your question.

Senator **Mondale.** Your sentence says to provide increased incentives for voluntary giving.

How would you increase tax incentives?

Mr. **Grimes.** This is an area of activity, Senator Mondale, on which I am not at this point prepared this morning to go into detail, but there are some recommendations along that line that have been developed by the pooling of effort by groups that are section 501(c)(3), which you may know about. The National Health Council has participated, we have addressed ourselves to this specific question, and I would be very happy to make the proposals available to you.

Senator **Mondale.** Your second point about permitting charities to participate more fully in legislation dialogue, I think, makes a great deal of sense. I fought against that restriction. I think our foundations and our private charities have a great deal to give to the Congress, legislative bodies, and that has my warm support.

Mr. **Grimes.** We appreciate that support Senator Mondale. The third proposal is relatively new. It is one that I would urge your serious consideration of at this particular time. We think it would increase the possibility and ease of recognition of reputable voluntary organizations, if a requirement was made for section 501(c)(3) organizations to issue an annual trusteeship report to the public. This is not a provision now.

The public should be able to make the decision of whether organizations are fulfilling their trusteeship adequately, if such an annual report contained at least three things: First, a full disclosure of their financial activities according to generally accepted accounting principles, which today is the uniform accounting standards. It is an easy to understand format with which people will be able to tell how much is being used for supportive costs and how much is being spent for program.

Second, there should be a requirement that the annual report include some disclosure abouts its major activities, that is, what they are doing to accomplish their objectives, and what were their accomplisrhments during the past reporting period.

Third, and finally, I believe that such an annual report should require listing the names of people who are responsible for the organization's activities, both policy setting, as well as execution of policy.

I would like to add one other comment before closing this. In 1973 I did a study of incentives for voluntary citizen action in seven European countries. This was an effort to take a look at what was going on in the European countries that have moved to a heavy dependence on government for its social services.

Do they have voluntary citizen action? How much? If any, and how is it done?

They do have voluntary citizen action. However, the amount of per capita contributions is not comparable to that in this country. Threre is a strong desire on the part of every one of these countries to take a look at how do we do it in this country. How do we get people to volunteer their time, effort, and money, to improve services for the community and country?

The contrast was outstanding. Incidently, many of the voluntary agencies in the countries visited receive most of their money from government. This puts a great deal of control in the hands of the elected government delegates on what is done with the money.

My purpose in coming before this committee today is to stress not only the importance of the private sector but the need for enlarging the opportunities for citizens to act voluntarily, generously, to support good work in their communities, in the Nation. We all like to have the feeling that each of us can have a positive influence in improving our own life, that of our children and of our neighbors through contributing to causes that benefit others as well as ourselves. The possibility of being able to do so and the encouragement of this concept will have benefits in the form of healthier and happier children and a more involved citizenry than if primary dependence for social services, including health institutions is placed with one source of money, the Federal Government.

Senator MONDALE. Would we be wasting our efforts trying to find out what is going on or reporting to officials on other organizations which may be excessively wasteful or even fraudulent?

Mr. GRIMES. No. We think such a system is needed.

There needs to be some process set up to be able to make it easy to discriminate between those that are good agencies, reputable, serving the public's interests, and those that are not.

However, we have not been able as yet to evolve a system where this can be done. We feel that within the field itself what we can do is talk about those that are good and hopefully the public will recognize and support them.

Senator MONDALE. So that if a citizen were to call you about a charity not affiliated with you in the health field, you would have to say "We have no information on that"?

Mr. GRIMES. Correct, the National Health Council does not provide information on voluntary health organizations that are not members.

As you know, the next person to present testimony is the Council of Better Business Bureaus, and they do provide factual information on organizations that are soliciting funds from the public of all types.

Senator MONDALE. Now, your Council requires its members to disclose fundraising costs in their annual report?

Mr. GRIMES. Yes.

Senator MONDALE. Thank you very much.

How long has the National Health Council been in existence?

Mr. GRIMES. We were founded in 1920.

Senator MONDALE. How long have you been with the council?

Mr. GRIMES. Since 1962.

Senator MONDALE. What does the National Health Council do when they know of a charity that is inordinately wasteful or even corrupt?

What do you do?

Mr. GRIMES. The National Health Council is not an accrediting agency, Senator Mondale. We can only talk about those organizations that are within our membership.

As you know, there are some legal problems in terms of talking about other people that may or may not meet your own standards. We have no way of judging them unless they are within our membership.

So, in answer to your question, we can say that those organizations that are within the council's membership meet our standards.

Now, those that are without, may or may not meet our standards, but we have no way of knowing.

Senator MONDALE. Would it be fair to say, then, that the established organizations are reluctant to become involved? What is the council's position on disclosure of this information to potential contributors at the time of solicitation?

Mr. GRIMES. Well, this is a very good question.

We feel that the percentage by itself does not tell enough about how worthwhile an organization may be. It is not a simple matter Fund raising costs of 33 percent or 50 percent, does not mean that you are a bad agency or even a marginal agency, because an organization that is brand new is going to have to spend more money to get its message across than an organiaztion that has been around for a few years.

Senator MONDALE. Suppose you have had one around for 10 years and it is running 85 percent in its fund raising costs?

Mr. GRIMES. It raises questions.

Senator MONDALE. As a matter of fact, if a contributor knew about it, he probably would not contribute, would he?

Mr. GRIMES. On a nickel and dime basis, he probably would not raise that type of question, but when it came to money of sizable amounts, I think the question would be very important to him as to how efficient they were.

Senator MONDALE. You see what I am getting at?

Should there be a requirement that before someone—at the time of solicitation, a contributor ought to be told the ratio of fund raising costs?

Mr. GRIMES. Well, I would hope that that would not be the only factor.

It could be one of the factors the potential contributor has available to him, if he finds that that is important.

The question of making available the financial report to the person who finds this important for making his contribution is now done upon request by any reputable organization.

If he wants it, he will get it.

The problem we have had is to be able to make that data useful, make it comparable so that it tells something on a comparable basis.

With the uniform accounting standards that I referred to earlier, there will be a much more useful mechanism for providing data to the public.

Senator **MONDALE**. It seems to me sort of elementary fairness that we ought to know and maybe then evaluate. A lot of politicians did not want to disclose sources of campaign funds because they thought the public would not understand.

Well, they are doing a pretty good job of understanding now.

Mr. **GRIMES**. I hope I am not being misunderstood.

I believe the uniform accounting and reporting standards are easy to understand. What I am saying is that a simple percentage of supporting service cost is not going to be enough information for the person to make a good judgment about an agency because it is a flexible item.

Senator **MONDALE**. Why would a national health charity join you?

What kind of services do you provide?

Why do they want to join the council?

Mr. **GRIMES**. We have asked our member agencies this question, "Why do you want to belong to the National Health Council?"

I believe one of the strongest motivations is the company they keep. It is the legitimatizing function that they are within respectable company.

Senator **MONDALE**. Then anybody dealing with it knows there is a council that has looked at them, checking their books, knows the nature and quality of their management.

If you really had a rotten member, you would kick them out?

Mr. **GRIMES**. That is right.

Senator **MONDALE**. They know that. It is a form of protection, as you say, legitimatized.

If you are a charity with problems, tremendous overhead problems, programs that really are not advisable from responsible health standpoint, or are corrupt, what you would do is simply stay out of your council, and you would not apply and would not want to come close to it?

Mr. **GRIMES**. That is about what would happen.

Senator **MONDALE**. Why do you consider the use of solicitors who are paid on a commission basis as improper fund raisings?

Mr. **GRIMES**. Well, our concern in terms of fund raising standards is what does it do for the giver? The concern in terms of paying commissions, for example, is too much chance for exploiting the public.

The persons in the profession of fund raising, indicate that they provide a professional service, and for that professrional service there should be a fee, just as there is for legal services, medical services—they provide professional consultation. They should be paid for it on a fee basis and not open to the possibility of the whims of chance or luck where they could be overpaid for a minimum amount of professional advice.

On that basis, the agency should be willing to pay for it.

Senator **MONDALE**. Could you estimate the amount of money donated to voluntary health organizations in this country each year?

Mr. **Grimes**. For our NHC voluntary health agencies, I do know, and I just did this tally the other day for our 19 national voluntary health agencies in 1972. It was in excess of $850 million raised that year——

Senator **Mondale**. Those are the 19 major ones?

Mr. **Grimes**. Right.

Senator **Mondale**. About $800-some million?

Mr. **Grimes**. $850 million.

Senator **Mondale**. Do you have an estimate of how much is given nationally to all voluntary health organizations?

Mr. **Grimes**. I do not, Senator. I am sorry.

Senator **Mondale**. Any ball park figure at all?

Mr **Grimes**. Well, for charitable organizations generally, not just for health, it is in the $22 billion range.

Senator **Mondale**. What proportion of that do you think goes to health?

Do you have any notion?

Mr. **Grimes**. I am sorry, I do not. I can get that data for you and be glad to send it to you later.

Senator **Mondale**. Could you estimate the percentage of voluntary health contributions given that goes to benefit children and youth—I mean what proportion of money for health organizations is directed at the problems of children and youth?

Mr. **Grimes**. I do not have that information either.

Dr. Salisbury, could you give us some idea?

Senator **Mondale**. If you do not have figures, could you just give us some general opinions?

Dr. **Salisbury**. I can tell you that in my organization, the March of Dimes, it is 75 percent of the gross of the campaign goes for services.

Senator **Mondale**. To children?

Dr. **Salisbury**. Yes.

Well, all our services are essentially for children and mothers.

Senator **Mondale**. I am struck by the fact, which is just an observation, that when you look at newspaper, magazines, or television, a high proportion of solicitations is based on children. The picture of the child is very common, if not almost uniform, it seems to me, in an effort to gain funds based upon an appeal to help children.

Am I wrong in that?

Dr. **Salisbury**. Well, I think in the ones you are thinking of, it is entirely legitimate that they should be proposed that way, muscular dystrophy, cystic fibrosis, March of Dimes, Easter Seal, United Cerebral Palsy.

Senator **Mondale**. Are there charities that are basically for other than children's programs who nevertheless solicit funds based upon a picture of a sick child?

Dr. **Salisbury**. I am not aware of any, Senator Mondale.

Senator **Mondale**. Do you have rules on that?

Suppose you are really in something else, but you think maybe sick kids are the real grabber?

Do you find people doing that?

Mr. **Grimes**. I believe that where their concern does involve children, it is strong emotional pull. None are going to fight that.

The American Lung Association is concerned with air pollution. This affects people of all ages. Their appeals are not directed at children. You will find most of their appeals are directed toward the business of smoking and health, which is not a large problem for small children.

Also, you will find that the organizations like the Cancer Society does not limit its concerns to children. There are quite a few health solicitations that do not focus on children alone. Their programs include children, but it is not exclusive to children in terms of emotional appeals.

Senator MONDALE. The scubcommittee has learned in some of its investigations that it is common for charities which are kicked out of a State for unethical practice or having trouble to simply set up business in another State.

Is this a common practice and, if so, how can we eliminate that?

Mr. GRIMES. I did not hear the first part of your question.

Senator MONDALE. Suppose a charity is having trouble with a State or a community that has got an office which protects——

Mr. GRIMES. The Charity Registration Bureau?

Senator MONDALE. That would be a typical one.

They stay out of that State and avoid the trouble.

Is there some evidence that that happens?

Mr. GRIMES. Yes.

Senator MONDALE. What might we do about that?

Mr. GRIMES. Each State, if they would adopt regulatory legislation for solicitating organizations that is consistent with the standards of accounting and financial reporting, we believe that this would discourage many of the fly-by-night organizations from soliciting in those communities. And if every State did it, we feel that there would be a higher respectability for most of the reputable organizations that are soliciting funds from the public.

This might be one way of doing it. Senator Mondale.

The other would be Federal legislation that would require disclosure of this type.

Senator MONDALE. Do you believe that the average contributor is sufficiently educated in the ways charities operate to make intelligent judgments as to what is an ethical or efficient organization?

Mr. GRIMES. Would you say that again.

Senator MONDALE. Do you believe that the average contributor is sufficiently educated in the ways charities operate to make intelligent judgments as to what is an ethical or efficient organization?

Mr. GRIMES. Yes. I believe, as Dr. Salisbury indicated, that people will tend to give emotionally first. When the amount of money is small, they will give because of the emotion primarily. When the amounts of money are large, I think they begin to look at how will the money be used.

I do think that more people are increasingly beginning to ask about how their money is being used, and the agencies, I think, are increasingly able to give them information on which they can make a sound decision, vis-a-vis reporting standards.

Senator MONDALE. Senator Hathaway.

Senator HATHAWAY. I am addressing my questions to either one of you. What bothers me a little bit about charitable organizations is the question of priorities, unequitable distribution of the funding load. Say you had a Government takeover of all chartable organizations. I know there are some shortcomings in the Internal Revenue Code, but could we say, generally pay in accordance with our ability to pay, whereas if these good works are done by charitable organizations, then you prey upon those who feel morally responsible regardless of what their particular income level is. Therefore you get sort of a warped basis, I assume, of contributions. How do you answer that question and how do you answer the further question about priorities? I mean, as Senator Mondale just pointed out, and as you just pointed out, people give on the basis of their emotions.

If cystic fibrosis happens to appeal to them, they will give more to that than they will to cancer. And the problems of cancer, probably, we will assume, are much greater and they need much more money. How do you answer the general question that this could be better handled by Government as far as placing the load more equitably on the people and determining priorities?

Mr. **Grimes**. Senator, I am not sure that I think it is a good idea to change that freedom for the individual to make his own decision about what is important to him. I think as long as we have the laws that we have in this land, that right should be protected. If he wants to give to cystic fibrosis because it is important to him, I believe he should have that right to put his money where he wants it to go.

The idea of putting that in perspective is an educational job for our school systems. It is for voluntary agencies to make sure he understands the relative importance of their services.

Senator **Hathaway**. Do you not think we need more organizations such as yours to assess these priorities? I know my own community, and I think many communities throughout the United States, have gotten away from the individual charities by forming a United Fund and encouraging people to give just to United Fund. Then the board of directors of the United Fund determines which charities should get how much. Is that not a better approach than giving to a lot of individual ones?

Mr. **Grimes**. No. Many of our organizations participate in United Way. The national voluntary agencies that are represented in the council, some of them raise most of their money through the United Way. You will tend to find that those organizations that do so are those that serve a very real need, but does not have a wide public acceptance. For example, it could be VD control. The type of appeal that would not raise a large emotional response in terms of contributions, and as a result they are able to get more resources via the United Way, where it could be talked about from an intellectual standpoint and financed as part of the United Way gift.

The idea of enabling the United Way to coexist with the independent appeals is the way it is, and the way actually it is probably going to continue to be, where people have a chance to do both, to support agencies via the United Way, so that the appropriations can be done on a communitywide basis by peers, knowledgeable people, that can make these decisions based upon the study of the facts, but also the individual making the decision himself about what he feels is most important, even though the community's decisions do not necessarily agree with his own.

I believe both of those will continue to exist and should for the reason I have so indicated.

Senator HATHAWAY. You mentioned something about the European experience. I did not understand what you meant. Were you trying to say that the European experience has led us to believe that it is not a wise idea to have Government fund all of these charitable purposes?

Mr. GRIMES. That is correct.

Senator HATHAWAY. I did not understand why.

Mr GRIMES. If you will look at Sweden and England, two countries that have moved probably furthest along the line of providing almost all of their social services via Government, those systems are looking for ways to stimulate independent voluntary citizen action to supplement Government services, because they have not been able to deal with the problems as adequately as they should be dealt with.

They are trying to stimulate, find ways to supplement the Government approaches, because Government has not been able to solve the problems.

Senator HATHAWAY. Why has it not?

Mr. GRIMES. It is not just money alone, I think. It is primarily an effort to get people to do for themselves, to commit themselves to doing things voluntarily, and I frankly think that the amount of money the Government can make available for dealing with all of our social problems is just never enough. There is always going to be something else that people want done. I do not think the Government can supply all the money to meet all the social needs.

This all leads us back to the importance of people wanting to do for themselves for the very inherent benefits in that alone as well as the economic aspects of it.

Senator HATHAWAY. I can see maybe the value in volunteerism involved, such as we tried to instill in the poverty program that we once had, and which we do not have much left of, but could not the same thing be done by the Government for other charitable purposes such as in the field of medicine?

Mr. GRIMES. One of the most popular reactions that seem to be indicated from the countries that I touched base with in Europe is that if Government takes the money, let Government do it.

Now does that help any in response to your question? I think that basically the concern is that people often expect somebody else to do the job for them, if they are taxed for that purpose.

There is less incentive for people who want to help their neighbor if they know that somebody else officially has that responsibility. Sometimes a neighbor does not get the help he needs, the quality he needs, in the time he needs it, whereas he could get it if the system encouraged this type of voluntary modual help.

Senator HATHAWAY. Thank you very much.

Senator MONDALE. I wish to say that I agree wholeheartedly that we need a diversified system, public and private. I think one of the exciting elements of American life traditionally has been that we have both, and that people on their own can start an effort to deal with a problem in their communities or a national problem, and that is a very important part of our country. I think it has done a great deal of good.

The really basic reason for these hearings is not to weaken, but I hope to strengthen the system of voluntary giving, by assuring essential public faith in them, which must be based on reality that they are reasonably efficient and competent and not unduly wasteful or corrupt, which is basically what your council exists for with respect to your affiliate members.

Mr. GRIMES. Yes, sir.

Senator MONDALE. That is what I personally am trying to get at here, and I think your testimony has been very, very helpful indeed.

Senator HATHAWAY. Did you intend for your very excellent suggestions to amend section 501, that that information would be made available to the general public?

Mr. GRIMES. That is correct.

Senator HATHAWAY. Thank you.

Senator MONDALE One specific question. Would you support a prohibition on the use of commercial merchandise in mail solicitations if it were done in a way to exclude nominal things?

Mr. GRIMES. Under our current postal laws, the mailing of unordered merchandise is not against the law. The idea is that you cannot collect for it.

I believe an organization that wants to mail unordered merchandise as a fundraising tactic, since it is a free country, should be free to do it, but I believe that in using unordered merchandise for charitable purposes, people should be aware that this is an extremely costly fundraising process.

Senator MONDALE. If you have something in mail solicitation that costs you 3 or 4 cents to put in an envelope, it is almost inevitable that those fundraising costs are going to be phenomenal. There is no way of getting around it.

Mr. GRIMES. It may be that those 3 or 4 cents, Senator Mondale, may carry a tremendously strong emotional pull.

Senator MONDALE. Give me an example.

Mr. GRIMES. One of the best examples that we see today is with the Epilepsy Foundation of America. They insert a bright shiny new penny on each one of their letters, not each one, but a large number of their letters that asks for solicitations.

Senator MONDALE. What do their fundraising costs run?

Mr. GRIMES. It is 33 percent of their income in 1972.

The point I was making is that they have tried repeatedly a number of different tests to find something that would work as well or better than that bright, shiny new penny in terms of making contributions come into that organization. Nothing has been able to do it as well in terms of raising money for their organization's programs as that particular solicitation effort.

Senator MONDALE. We are very grateful to you for your presentation. We may have more specific questions that we will put to you in writing, if you can respond in letter form, that one question I asked about, and some of the other questions you can respond to in the record also, and I hope you will do so.

We will meet tomorrow at 9:30. Our first witness will be Helen O'Rourke, who has kindly agreed to come back tomorrow.

At this point I order printed in the record any supplemental information subsequently supplied for inclusion in the record of this hearing.

BEST COPY AVAILABLE

National Health Council, Inc.
1740 Broadway, New York, N.Y. 10019 212 582-6040

March 25, 1974

Senator Walter F. Mondale
United States Senate
Washington, D.C. 20510

Dear Senator Mondale:

The following is to supply the supplemental information you requested during my testimony before the Subcommittee on Children and Youth Hearings on February 4, 1974:

> WHAT PROPORTION OF THE $22.68 BILLION IN CHARITABLE CONTRIBUTIONS in 1972 WENT FOR HEALTH PURPOSES?
>
> From the compilation of facts and trends on American Philanthropy in 1972 by the American Association of Fund-Raising Counsel, it is estimated that 3.68 billion or 16.2% went for "health and hospitals" (up 10.2% over 1971). This is a minimum figure since the AAFRC tabulation does not include all of the National Health Council National Voluntary Health Organizations. This may be offset to some degree by inclusion of certain other organizations of the same type that are not currently in our membership. Of the 3.68 billion, it is estimated that health agencies received 580 million plus 270 million for health causes in the United Way, or 580 million all told. *
>
> I am enclosing for additional detail on this subject a copy of the 1973 edition of GIVING - USA, published by AAFRC (see pages 5 thru 7 for overview on total voluntary giving; details on health appear on pages 33 - 40).
>
> WHAT PERCENT OF CHARITABLE CONTRIBUTIONS FOR HEALTH PURPOSES WENT TO BENEFIT CHILDREN AND YOUTH?
>
> It is difficult to estimate how much of the total was of direct benefit to children and youth. We believe that all of it was of indirect benefit.
>
> Like adults, children and youth are blind, crippled, retarded, have leukemia, heart or kidney problems, epilepsy, and so on. Although the total effort of the health agencies is not to benefit children, without the total philanthropic dollars available any benefit to children, as well as to adults, would be seriously handicapped. Many hospitals have children's wards, and there are a number of hospitals for children only. Here again, without the total facility, children and youth, together with adults would suffer.
>
> * For NHC Voluntary Health Agency Members total income was approximately $450 million in 1972.

BEST COPY AVAILABLE

The American Association of Fund-Raising Counsel tells us that some 600 organizations are listed in the IRS Cumulative List of Organizations described in Section 170 (c) of the 1954 Code that start with "child" or "children."

More than 1,500 start with "Young" or "Youth." Another 600 organizations start with "Boy(s)" or "Girl(s)." Many of these are in fields other than health, of course, but all of these are directly focused on the problems or activities of children and youth.

HOW WOULD YOU INCREASE TAX INCENTIVES FOR CHARITABLE GIVING?

At this time there are two proposals for increasing voluntary giving for public interest purposes based on tax incentives that I would like to suggest for the Committee's consideration:

1. Separate the charitable deduction from other tax deductions to increase public confidence in and respect for the charitable deduction.

   Charitable giving is not a "tax loophole." There is no financial gain to the giver. The support goes to improve the community. The existing Federal tax deduction for charitable gifts provides the donor an opportunity to support those public services that are most important to him where he lives and under the conditions affecting his life or his community. At present, because the charitable deduction is mixed together with tax exemptions that yield direct financial gains to the party involved in the transaction, (i.e. oil depletion allowances, veteran benefits, etc.) the charitable deduction has become associated with personal economic gain and mislabeled -- a "tax loophole."

   Attachment A is a proposal for separating the charitable deduction from other tax deductions. The proposal provides for equity in charitable deductions for all income groups and would not have an effect on government revenue. This proposal was developed by the 501 (c)(3) Group, an informal association of Executives of various charitable organizations and their Legal Counselors.

My second recommendation is aimed at preventing erosion of the financial base for charitable support. It is of immediate importance to -

2. Prevent additional restrictions on charitable giving that are being proposed such as taxation of estates and appreciated property donated to tax-exempt charitable organizations.

   Any effort at gaining added revenue for government by taxing unrealized appreciation in property contributions to charity, limiting the deductions for such gifts (during a lifetime or at death), taxing any part of estate gifts or setting a floor on deductions for charitable purposes is placing a tax burden on charity -- not on individual givers. If there is success in efforts to increase revenue in the above ways, it will take away from resources voluntarily given for support for community endeavors and deliver added cost burdens for community services to be financed by government -- at an increase in cost.

A new law taxing the appreciated portions of donated property at time of gift or sale would be detrimental to the agency supported by charitable giving. Such a provision in the law would discourage individuals from either donating or selling property. Thus, neither the government nor the charitable organization would benefit. Individuals contemplating donations of appreciated property, invariably consider donating this property because it is not feasible to sell it. Rather than donate the property and pay a tax, the individual is more likely to retain the property.

Instead of encouraging charitable bequests, the proposed taxation of estates would tend to reduce the present levels of these bequests. An even more serious effect in this type of taxation would result from the proposed ceiling on charitable bequests.

The most deleterious effect would be the disallowance of tax deductions for charitable contributions representing the first 3% of adjusted gross income. The total for individual contributions to charities was 16 billion in 1972, of which over 14 billion is estimated to be in the form of itemized contributions. According to 1970 data, deductions by individual tax payers for all charitable contributions averaged 2.9% of their adjusted gross income. Approximately 29 million of the 32 million tax payers who itemize their contributions are in income classes where the average contribution is less than 3%. Their gifts represented about 10 billion, which was more than two-thirds of the total amounts contributed. In addition to removing the entire tax advantage for these people, the 3% floor that is proposed in tax revision would appreciably reduce the tax benefit to individuals who contribute more than the 3% floor.

Lack of tax equity is not a valid argument for taxation of gifts to public interest charities. An individual decision

BEST COPY AVAILABLE

to make a charitable contribution is to provide benefit to the community or nation in the form of educational services, encouragement of the arts, scientific research and improvement in health services -- not to provide a net gain to the donor.

By government encouraging such voluntary gifts in increasing amounts, the public gains and not the individual unless it is in the form of public recognition for efforts to improve the quality of life and the human condition in his local community and the nation. This is a form of gain in terms of non monetary rewards that is not likely to work to the disadvantage of the nation or its inhabitants. In fact, recognition for such selfless behavior, it seems to me, should be a major goal of government.

I am participating, on behalf of the National Health Council, with other 501 (c)(3) Groups to develop additional proposals for ways of increasing the tax incentives for voluntary giving. Because of the relevance of taxes and voluntary giving to the health of children and youth, I would welcome the opportunity to supplement the above proposals with additional ones that come out of the discussions by leaders in the voluntary field on this subject.

I appreciate your invitation to submit the above supplementary information to my original testimony for consideration by members of the Senate Subcommittee. If additional information on the above proposal is desired, please let us know.

Sincerely yours,

Jack Grimes

Arthur Jack Grimes
Director for Membership

AJG:fm
encl.

cc: Sidney Johnson
Harvey Katz

ATTACHMENT A

BEST COPY AVAILABLE

Proposal to Increase Tax Incentives for Voluntary Contributions *

Separate the charitable contribution deduction from all other itemized deductions in connection with the calculation of federal income tax liability.

To accomplish this it is recommended:

1. That all charitable contributions, subject to present limitations, be taken as deductions from gross income.

2. That for persons not itemizing, two options be available:

   A. The taxpayer may deduct 20% of his allowable Standard Deduction from gross income, or

   B. The taxpayer may itemize and deduct from gross income his actual charitable contributions.

   C. In exercising this option, the taxpayer may take the larger of the two figures.

Comment:

A. This proposal represents a new and promising approach to the objective sought.

B. This is an equitable proposal since it makes a deduction from gross income and the opportunity to itemize available to everyone.

C. Reducing the Standard Deduction by 20%, the assumed average of charitable contributions contained therein, will not have any revenue consequences.

Should the above proposal require modification, it is suggested that deductions in excess of $100 be allowed only when supported by receipts, cancelled checks, or other appropriate verification justification.

* Developed and Recommended by 501 (c)(3) Group January 16, 1974

11/73

The 501
(c)(3) Group

MEMBERSHIP ROSTER

Thomas R. Buckman
President
The Foundation Center
888 Seventh Avenue
New York, New York 10019
(212-489-8610)

Winston E. Forrest, Jr.
President
American Alumni Council
One Dupont Circle, N. W.
Washington, D. C. 20036
(202-223-9505)

David F. Freeman
President
Council on Foundations, Inc.
888 Seventh Avenue
New York, New York 10019
(212-489-7120)

S. Peter Goldberg
Assistant Director
Council of Jewish Federations
and Welfare Funds, Inc.
315 Park Avenue South
New York, New York 10010
(212-673-8200)

Arthur J. Grimes
Director for Membership
National Health Council, Inc.
1740 Broadway
New York, New York 10019
(212-582-6040)

Walter A. Jensen
Director of Business and Finance
Luthern Council in the U.S.A.
315 Park Avenue South
New York, New York 10010
(212-677-3950)

John W. Leslie
~~President~~ Executive Vice President
American College Public Relations
Association
One Dupont Circle, N. W.
Washington, D. C. 20036
(202-293-6360)

*Kenneth H. Liles
Counsel
Sutherland, Asbill & Brennan
1666 K Street, N. W.
Washington, D. C. 20006
(202-872-7817)

Gordon Manser
Interim Executive Director
National Assembly for Social
Policy and Development, Inc.
345 East 46th Street
New York, New York 10017
(212-490-2900)

Leon O. Marion
Executive Director
American Council of Voluntary
Agencies for Foreign Service, Inc.
200 Park Avenue South
New York, New York 10003
(212-777-8210)

Dr. Roland C. Matthies
(Committee on Gift Annuities)
Vice President and Treasurer
Wittenberg University
Springfield, Ohio 45501
(513-327-7911)

George W. McKeag
Attorney at Law
(United Presbyterian Foundation)
123 South Broad Street
Philadelphia, Pennsylvania 19109
(215-545-0456)

C. F. McNeil (Past Chairman)
21 Sussex Drive
Lewes, Delaware 19958
(302-645-9454)

Dr. Nordan C. Murphy
Director of Stewardship & Benevolence
National Council of the Churches
of Christ in the U.S.A.
475 Riverside Drive
New York, New York 10027
(212-870-2141)

*John Holt Myers
Partner
Williams, Myers and Quiggle
888 Seventeenth Street, N. W.
Washington, D. C. 20006
(202-298-7373)

George E. Reed
Office of General Counsel
United States Catholic Conference
1312 Massachusetts Avenue, N. W.
Washington, D. C. 20005
(202-659-6690)

James R. Reed
President
Christian Church Foundation
222 South Downey Avenue
Indianapolis, Indiana 46219
(317-353-1491)

Charles X. Sampson (Chairman)
Executive Consultant
United Way of America
801 North Fairfax
Alexandria, Virginia 22313
(703-836-7100)

John J. Schwartz
President
American Association of Fund-Raising Counsel, Inc.
500 Fifth Avenue
New York, New York 10036
(212-524-5468)

*George L. Shearin
Attorney and Counselor
Shearin & Collins
1110 Dallas Federal Savings Building
1505 Elm Street
Dallas, Texas 75201
(214-651-9381)

Hayden W. Smith
Vice President - Research
Council for Financial Aid to Education, Inc.
680 Fifth Avenue
New York, New York 10019
(212-541-4050)

Norman C. Smith
Vice President
Emory University
Atlanta, Georgia 30322
(404-377-2411)
Also -- Note next column --

Chairman of the Board
National Society of Fund Raisers
130 East 40th Street
New York, New York 10016
(212-683-0758)

James E. Spivey
Director
United Presbyterian Foundation
475 Riverside Drive
New York, New York 10027
(212-870-2013)

#Elvis J. Stahr
President
National Audubon Society
950 Third Avenue
New York, New York 10022
(212-832-3200)

John E. Sullivan
Vice President and Treasurer
American Hospital Association
840 North Lake Shore Drive
Chicago, Illinois 60611
(312-645-9558)

*Conrad Teitell
Prerau and Teitell
West Building, 37th Floor
280 Park Avenue
New York, New York 10017
(212-661-6806)

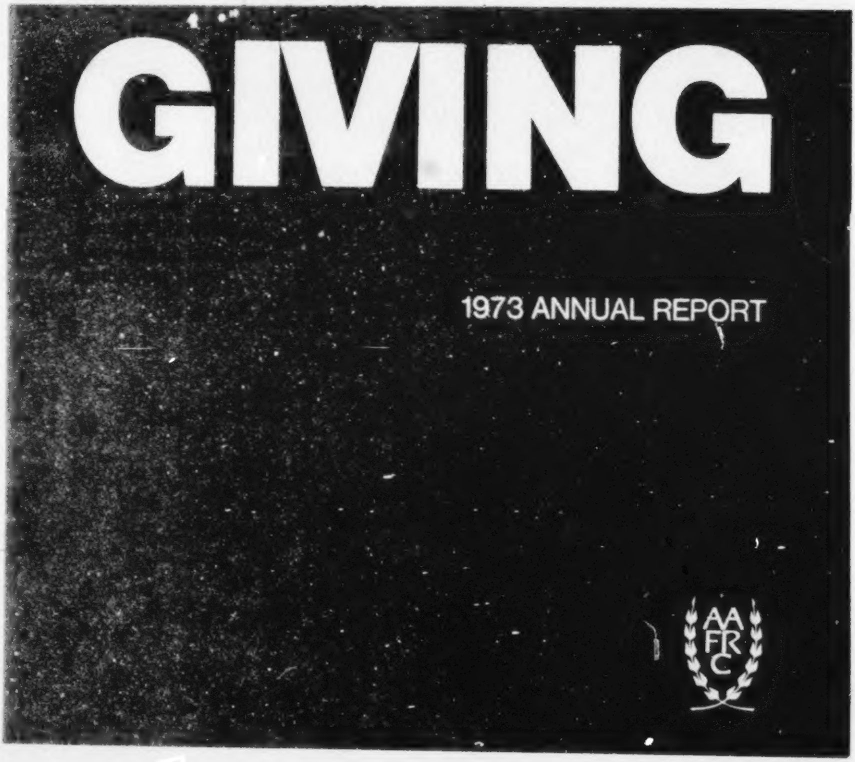
W. Homer Turner
Executive Vice President
National Council on Philanthropy
680 Fifth Avenue
New York, New York 10019
(212-265-2986)

~~Richard H. Wangerin~~
~~President~~
~~American Symphony Orchestra League~~
~~P. O. Box 66~~
~~Vienna, Virginia 22180~~
~~(703-938-2822)~~

*Stanley S. Weithorn
Upham, Meeker & Weithorn
Chrysler Building, 62nd Floor
New York, New York 10017
(212-697-6640)

---

*Legal Consultants
#Associate Member



GIVING

1973 ANNUAL REPORT

AAFRC

BEST COPY AVAILABLE

GIVING USA

A compilation of facts and trends on American philanthropy for the year 1972

American Association of Fund-Raising Counsel, Inc
500 Fifth Avenue, New York, N.Y. 10036
212/524-5468

Members

American City Bureau/Beaver Associates
Barnes & Roche, Inc
Brakeley, John Price Jones Inc.
[illegible] & Co. Inc
Community Counselling Service, Inc.
Community Service Bureau, Inc
Owen C. Coogan, Inc.
Cosgriff Company
The Cumerford Corporation
Holland Estill and Company, Inc
Charles R. Feldstein & Co., Inc
The Gurin Group, Inc
Haney Associates, Inc.
Kersting, Brown & Co., Inc
Kersting, Holding & Street, Incorporated
Ketchum, Inc
Marts & Lundy, Inc
The Martin J. Moran Company
Oram Associates, Inc.
Harold L. Oram, Inc
Philanthropic Fund-Raising Service, Inc
Richard Pontz & Associates
John F. Rich Company
Rusk & Oram, Inc
C. W. Shaver & Company, Inc
Smith, Legge & Darcy, Inc.
Tamblyn & Brown, Inc
Ward, Dreshman & Reinhardt, Inc
Milton Hood Ward & Co., Inc
Will, Folsom and Smith, Inc.

David M. Church, Honorary Member
Robert F. Duncan, Honorary Member

A directory of members, listing addresses and telephone numbers, branch offices, services, interests, and geographic limitations, is available upon request from the association.

Officers and Staff

Roger H. Wilson, Chairman
Robert Cosgriff, Vice Chairman
John J. Schwartz, President
Carl W. Shaver, Secretary
Raleigh L. Smith, Treasurer

Joan McC. Lundberg, Director of Public Relations
Marie M. Medeo, Office Manager

Fair Practice Code
American Association of Fund-Raising Counsel, Inc.

Member firms will serve only those philanthropic institutions or agencies whose purpose and methods they can approve. They will not knowingly be used by any organization to induce philanthropically inclined persons to give their money to unworthy causes.

Member firms do business only on the basis of a specified fee, determined prior to the beginning of the campaign. They will not serve clients on the unprofessional basis of a percentage or commission of the sums raised. They maintain this ethical standard also by not profiting, directly or indirectly, from disbursements for the accounts of clients.

The executive head of a member organization must demonstrate at least a six-year record of continuous experience as a professional in the fund-raising field. This helps to protect the public from those who enter the profession without sufficient competence, experience, or devotion to ideals of public service.

The Association looks with disfavor upon firms which use methods harmful to the public, such as making exaggerated claims of past achievements, guaranteeing results, and promising to raise unobtainable sums.

No payment in cash or kind shall be made by a member to an officer, director, trustee, or advisor of a philanthropic agency or institution as compensation for using his influence for the engaging of a member for fund-raising counsel.

Foreword

Private giving for the public good rose to a record level of $22.68 billion in 1972, an increase of $1.4 billion over the previous year. American philanthropy in 1972 was nearly double the figure for 1964.

Although voluntary giving has grown vigorously year by year, the challenges to philanthropy are enormous. The need for private support of America's educational, health, cultural, and welfare organizations never before has been greater. It is profoundly disturbing to observe the gap between need and available support grow each year rather than diminish. Higher operating costs of nonprofit organizations and vast increases in construction costs for expansion or replacement of facilities threaten the financial well-being of higher education, hospitals, museums and cultural programs, and countless other service organizations dedicated to improving the human condition.

Philanthropy struggles to meet these new responsibilities at a time when the level of government funding for many of these same programs is being reduced.

There is another disturbing element which could have devastating effect upon the future of philanthropy. The charitable deduction for income tax is being questioned.

It is clear that both private philanthropy and government support need to be expanded, not curtailed, if this nation is to meet its responsibilities. The efforts of many of us in the coming year will be directed to this common goal.

Roger H. Wilson

ROGER H. WILSON, Chairman

BEST COPY AVAILABLE

Philanthropy 1972

The year 1972 was one of solid economic advance for the country, with widespread gains in many areas. Employment is at record levels, inflation had slowed, earned incomes are higher, corporate profits have increased, and disposable personal income is up. Although weak spots exist, economic forecasts for the current year indicate even greater gains in every area.

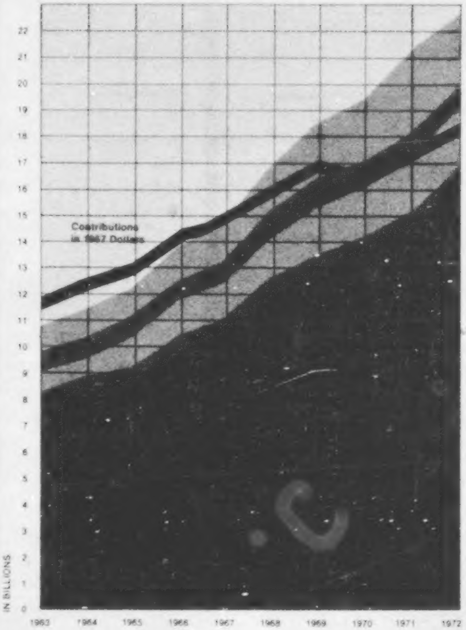
Philanthropy has continued to grow and in 1972 increased 6.5 percent to a total of $22.68 billion. The percentage increase would be greater if last year's figure did not include an extraordinary bequest of $1 billion.

The Growth of Philanthropy 1963-72

Year	Total Giving (billions)	1967 Dollars (billions)	Gross National Product (billions)	As % of GNP
1963	$10.67	$11.64	$590.5	1.81
1964	11.44	12.31	632.4	1.81
1965	12.21	12.92	683.9	1.79
1966	13.88	14.28	743.3	1.87
1967	14.77	14.77	789.7	1.87
1968	16.81	16.13	864.2	1.95
1969	18.58	16.92	930.3*	2.00
1970	19.30*	16.60	976.4*	1.98*
1971	21.29*	17.55	1,050.4*	2.03*
1972	22.68	18.10	1,151.8	1.97

*Revised—March 1973

Total Giving 1963-72 (in billions)



Donors

Bequests

Corporations

Foundations

Individuals

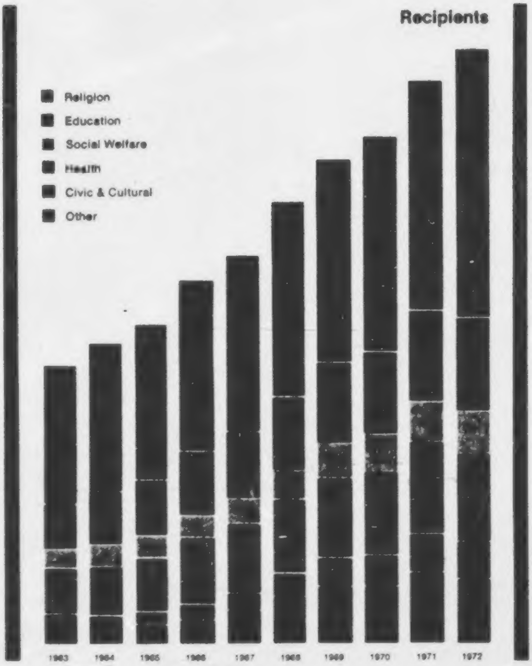
Individuals	
1963	$ 8.32
1964	8.93
1965	9.28
1966	10.53
1967	11.14
1968	12.80
1969	13.60
1970	14.40
1971	15.40*
1972	16.91

Bequests	
1963	$ .86
1964	.95
1965	1.02
1966	1.31
1967	1.40
1968	1.60
1969	2.13
1970	2.20
1971	3.00
1972	2.73

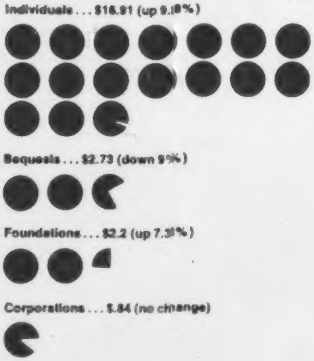
Foundations	
1963	$ .82
1964	.83
1965	1.13
1966	1.25
1967	1.40
1968	1.60
1969	1.80
1970	1.90
1971	2.06
1972	2.30

Corporations	
1963	$ .66
1964	.73
1965	.79
1966	.81
1967	.83
1968	1.01
1969	1.06
1970	.80*
1971	.84*
1972	.84

*Revised



1972 Contributions (in billions)



Total Giving 1972
$22.68 billion (up 6.5%)

Contributions as % of total

Individuals/74.6%
Bequests/12%
Foundations/9.7%
Corporations/3.7%

Donors

Living individuals increased their giving to philanthropy in 1972 by $1.51 billion to $16.91 billion, a gain of 9.8 percent compared to last year's lower 6.9 percent increase. In 1972, they provided 74.6 percent of total giving, up from 72.3 percent in 1971.

Two factors in this increase are the gain in disposable personal income in 1972 and the greater number of people employed.

Bequests are estimated at $2.73 billion for 1972, down 9 percent from last year's $3 billion because of the single $1 billion-plus bequest in the 1971 $3 billion total. IRS figures on bequests are available every three years; the last IRS figure was for 1969, which showed a total of $2.13 billion, an increase of $820 million over 1966. Our estimate this year is a conservative $600 million over the 1969 figure.

Foundations have a special potential for responding to the needs of society, and they play an important role in the philanthropic scene. Together, they contribute almost 10 percent of total giving; in 1972, their giving increased by $150 million to $2.2 billion, up 7.3 percent.

Corporations have contributed a decreasing share of the philanthropic total in the last several years; in 1968, corporations contributed $1.01 billion, 6 percent of the total $16.81 billion given; in 1970, 4.1 percent of the $19.30 billion total; and in 1972, 3.7 percent of the total. Education, health, and welfare needs claim some 75 percent of each dollar. With corporate profits before taxes up 12 percent over last year, though but 6.5 percent over 1968 profits, contributions are estimated at $840 million, an increase of 5 percent over 1970 and no gain over 1971.

Recipients

Religious giving added $850 million to its total in 1972 to reach $9.75 billion. Surveys of 1971 giving only recently available indicate that giving in 1971 increased by at least $300 million more than the AAFRC estimate, and this figure has been changed. With this year's increase, religion now receives 43 percent of total giving. Church attendance remained at 40 percent, the same as last year, and membership is increasing.

Health is the second largest recipient of philanthropic giving. An increase of 10.2 percent over last year brings this year's total to $3.68 billion. The annual AAFRC survey of 21 national health agencies showed a rise of 13 percent in 1972 over the prior year.

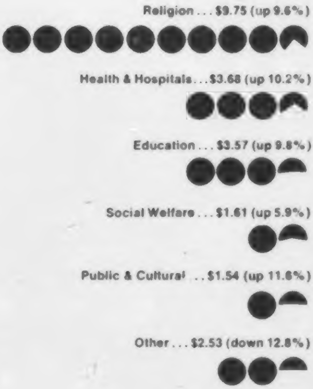
Education received $3.57 billion in 1972, with higher education receiving well over $2 billion of this. More institutions are finding it possible to balance their budgets, in part through increased support, higher tuition charges, and cutbacks in some areas.

Social Welfare represents 7.1 percent of total philanthropy, with $1.61 billion going to these agencies in 1972. Giving to United Funds increased almost 6 percent, with many geographic areas reporting new highs. Further gains should appear as the economy continues in an uptrend.

Public and Cultural Affairs benefited from an increased interest in both the arts and the environment. Dollar contributions, estimated at $1.54 billion for 1972, represent only a part of the growing awareness of the quality of life and nature.

Other represents 11.2 percent of giving this year, for a total of $2.53 billion. It includes foundation endowment, foreign aid, etc. The total is less this year than last, for last year's figure included a single bequest to a foundation for $1 billion.

1972 Distribution (in billions)



Distribution as % of total

Religion/43%
Health & Hospitals/16.2%
Education/15.7%
Social Welfare/7.1%
Public & Cultural/6.8%
Other*/11.2%

Includes foundation endowment, foreign aid, etc.

The Volunteer

In America, volunteers are a unique and indispensable element of philanthropy. They are found in every field of human service—enriching with their talent and experience cultural, educational, health, recreation, social welfare, and community programs of every description. In normal times, their contributions may not be singled out; but in time of disaster, the volunteer is recognized as all-important. A recent illustration will suffice.

In June 1972, Hurricane Agnes brought disaster to more than half a million Americans in metropolitan areas from Richmond north to Rochester and west to Pittsburgh, devastating wide areas and striking with special fury the Wilkes-Barre and Elmira-Corning areas. Tens of thousands of citizen volunteers, and hundreds upon hundreds of organizations and businesses and unions, voluntarily responded. Red Cross statistics show that individual help was given to more than 63,000 families; and food, shelter, or mass care to more than 500,000 disaster sufferers and emergency workers; 28,950 Red Cross volunteers, supported by 1,300 Red Cross disaster staff workers, were joined by volunteers from many other private and public agencies, including veterans and community organizations, church groups, the National Guard, and civil defense units. In the emergency, public and private sources worked together to rebuild.

Although not as dramatic or newsworthy, voluntarism is just as important in working toward the solution of every-day problems. An annual survey by AAFRC shows total current volunteer strength of 21 national agencies at around 40 million. A survey undertaken by the Gallup Organization in January 1973 of persons 18 years and over, if projected to total U.S. population, showed that more than 35 million persons have volunteered at least two hours a week to a worthwhile cause in recent weeks; an additional 38 million had in the past done volunteer work. Although these figures are projections from but a small sample of the population, they do indicate that a

BEST COPY AVAILABLE

large percentage of those over 18 (64 percent all together) serve or have served as volunteers. The need, however, is even greater, for there is a new urgency in America for a better community and a better quality of life for all.

To assist in translating and channeling this concern into effective action, the National Center for Voluntary Action was formed in early 1970. A private, nonprofit, nongovernmental organization, the NCVA works with other private-sector agencies and with volunteers to organize and support specific voluntary action programs; to link private-sector volunteer programs and counterpart activities sponsored by government; and to provide, through a central clearinghouse, information on volunteers and volunteer programs in all areas. TV spots last fall by pro football players telling of the need for volunteers brought more than 22,000 letters to Washington. The NCVA has also helped to build a network of locally based and locally controlled Voluntary Action Centers. Some 200 centers are now in operation, acting as stimulants for voluntary action, assessing the needs and resources of the community, matching people and problems—each serving the community as a center where all voluntary action is linked. Those wishing to volunteer come to the center to learn of opportunities for volunteer work; voluntary organizations discuss their volunteer needs with the center.

Today, there is a different mix of volunteers and a broader range of opportunities for this new mix. The young—college and high school age—hear of problems and want to help; employers are encouraging more workers to volunteer for community service, and in some instances allow leaves of absence with salary for such service; retired people are volunteering in increasing numbers. ACTION, the federal agency that administers volunteer programs, has served to bring many of the less affluent into such activities through providing small stipends and expense money. The former stereotype volunteer—middle-aged, white, fairly affluent housewife

Current Volunteer Strength of 21 National Agencies

Organizations	Number of Volunteers	Number of Fund-Raising Volunteers
United Way of America, Inc.	19,500,000	4,800,000
United States Committee for UNICEF	3,512,000	3,512,000
American Cancer Society, Inc.	2,300,000	2,000,000
The National Foundation	2,200,000	2,000,000
American Heart Association	1,981,156*	1,880,156*
The American National Red Cross	1,881,568**	n/a
National Association for Retarded Children	1,625,000	1,400,000
National Council—Boy Scouts of America	1,620,671	n/a
Muscular Dystrophy Associations of America	1,461,300	1,086,992
United Cerebral Palsy Association, Inc	1,350,000	1,000,000
National Tuberculosis and Respiratory Disease Association	1,000,000	150,000
The National Easter Seal Society for Crippled Children and Adults	800,000*	n/a
National Multiple Sclerosis Society	700,000	n/a
National Council of YMCA	[illegible]	80,901*
Girl Scouts of America	[illegible]	n/a
The Arthritis Foundation	445,000*	365,000*
The Salvation Army	214,384	50,914
National Board, YWCA of the USA	[illegible]	n/a
Boys' Clubs of America	125,000	78,000
United Service Organizations, Inc (USO)	119,000	65,000
Camp Fire Girls, Inc	110,000	12,000
Totals	42,198,918	18,323,963

**Estimated*

***Community programs only*

—is playing a less important role, as more and more housewives go back to school and to work. As this happens, some of the gaps are filled with salaried personnel, others with the new volunteer. Opportunities are changing as the mix changes, with untold benefits for both volunteer and organization receiving the services. The spirit of voluntarism has existed in America since the days of the pioneers. Today, it continues to enrich our communities and our nation.

Individuals

For 1970, 35 million itemized income-tax returns showed deductions for contributions of $12.9 billion, 2.88 percent of adjusted gross income. The average gift, as shown in the chart, was $364. The large bar graph shows average size of gift and the percentage of contributions to adjusted gross income at differing income levels; here it can be seen that a larger proportionate share of income goes to philanthropy from those in the lowest bracket (under $5,000) and those in the highest ($100,000 and over). These figures are based on IRS itemized tax returns.

For 1972, it is estimated that individuals gave $16.91 billion, an increase of 9.8 percent over 1971. Reflecting an expanding economy, personal income rose 8.6 percent, disposable income 6.8 percent. Although the lion's share of the increase came in wages and salaries, as the work force expanded by two million persons over a year earlier, dividends, interest, social security payments, and

Income Tax Deductions of Individuals for Philanthropy
Taxable & Nontaxable Returns

	Returns with Itemized Deductions	Adjusted Gross Income (000)	Deductions for Contributions (000)	% of Contributions to Adjusted Gross Income	Average Gift
1960	24,083,263	$181,131,130	$ 6,750,326	3.73	$280
1962	26,451,105	212,753,691	7,516,066	3.53	284
1964	26,909,591	244,070,127	8,326,966	3.41	309
1966	28,560,181	281,424,061	9,122,491	3.13	319
1968	32,066,336	366,983,220	11,156,921	3.02	348
1970	35,430,047	448,696,000	12,917,716	2.88	364

Source: Statistics of Income, Individual Income Tax Returns 1960-1970, Internal Revenue Service.

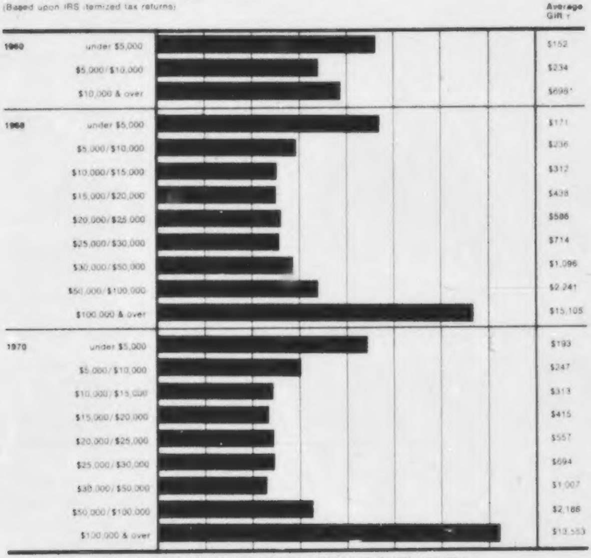
Individual Giving

Year	Personal Income (billions)	Individual Giving (billions)	As % of P.I.	Disposable Personal Income (billions)	As % of D.P.I.
1963	$465.5	$8.32	1.79	$404.6	2.06
1964	497.5	8.93	1.79	438.1	2.04
1965	538.9	9.28	1.72	472.2	1.96
1966	584.0	10.53	1.80	508.8	2.07
1967	629.3	11.14	1.77	546.3	2.04
1968	688.7	12.60	1.83	591.0	2.13
1969	750.9*	13.60	1.81	634.4*	2.14
1970	806.3*	14.40	1.79*	689.5*	2.09
1971	861.4*	15.40*	1.79*	744.4*	2.07*
1972	935.9	16.91	1.81	795.1	2.13

**Revised—March 1973*

% of Contributions to Adjusted Gross Income†

(Based upon IRS itemized tax returns)



†The average gift was determined by dividing those returns that itemized contributions into the total contributions figure. The adjusted gross income figure used was for all returns with itemized deductions.

*Breakdown for returns between $10,000 and $15,000 not available before 1966.

other items also were up. The final chart for this section shows the individual giving total for the past 10 years both as a percentage of personal income and as a percentage of disposable personal income.

Bequests

The trend in bequest giving has been up—in 1963, bequests accounted for 8.3 percent of total giving; in 1966, 9.4 percent; and in 1969, 11.5 percent. Internal Revenue Service figures for these cover all estates of $60,000 or larger. The increase can be credited to a large degree to educational institutions, hospitals, health agencies, welfare organizations, and many others who have instituted programs to encourage bequests and have intensified their efforts in seeking them. Museums and art institutes have long recognized the importance of bequests to their programs and holdings and as other institutions become more active in this area, the bequest share of total philanthropy is bound to grow.

For 1972, the AAFRC estimate is $2.73 billion, or 12 percent of total giving, up fractionally as a percentage over 1969. The amount is less than a year ago, when the bequest estimate was $3 billion; this figure, however, included a single bequest of more than $1 billion left by Robert Wood Johnson to increase the assets of the foundation bearing his name. Three bequests totaling $41 million for foundation endowment were recorded by AAFRC in 1972; others of over a million dollars went to seven universities, two medical schools, five hospitals or health centers, one for a park and art collection, and one to a church synod. In all, 27 bequests of $1 million or more were recorded by AAFRC in 1972 for a total of $121 million.

Foundations

Total foundation giving for 1972 is estimated at $2.2 billion, an increase of $150 million, or 7.3 percent, over 1971. Although the figure represents but 10 percent of

Large Bequests—1972

Donor / Amount / Recipient

Louis R. Lurie—$25 million
Louis R. Lurie Foundation

S. Howard Young—$20 million
Lakeland Memorial Hospital

Frederick W. Beinecke—$14 million
Yale University

Brig. Gen. Lewis Kemper Williams—$12.5 million
Establish public park and endow art collection

Charles Engelhard—$12 million
Charles Engelhard Foundation

Anthony O. R. Baldridge—$6 million
Cornell University

James Gordon Hanes—$4 million
Hanes Foundation

Abra C. and John Rockefeller Prentice—$2.5 million
Northwestern Memorial Hospital

Adolph F. Fox—$2.4 million
Wisconsin Evangelical Lutheran Synod

Jacob S. Lasdon—$2 million
Cornell University Medical College

Mrs. Nathaniel Leverone—$2 million
Rehabilitation Institute of Chicago

Mrs. Grace M. Showalter—$2 million
Indianapolis Methodist Hospital

Mrs. Helen H. King—$1.8 million
Ohio Northern University

Cecil M. Gooch—$1.6 million
University of Tennessee

George Blaine Gilson—$1.4 million
University of San Francisco

Mrs. Rose McCourt—$1.25 million
French Polyclinic Health Center

Emery S. Beardsley—$1,213,610
University of Southern California School of Medicine

Mrs. Grace M. Showalter—$1.2 million
Indiana University Foundation

Benjamin Bergen Strang—$1,017,641
Columbia University

Charitable Bequests

A Historical Summary

Year	Number of Returns Filed	Total Gross Estate (Millions)	Value of Charitable Bequests (Millions)
1959	55,685	$11,648	$ 668.9
1961	64,538	14,622	950.8
1963	78,393	17,007	876.0
1966	97,339	21,936	1,309.5
1969	133,944	29,671	2,132.1

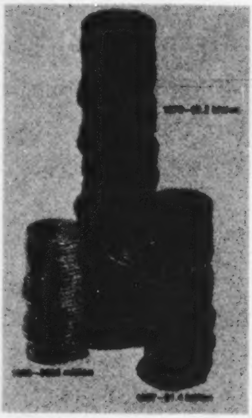
Source: Internal Revenue Service, U.S. Treasury Department total giving, foundations play a vital role in philanthropy, for they have great flexibility in making grants. This gives them a special potential for responding to the needs of a changing society and for contributing toward new ideas and experimentation that, once proved of benefit, will be supported by the general public and by government.

Several different kinds of grant-making foundations exist, and these include private general-purpose foundations, community foundations, corporate foundations, and family foundations. The total number is estimated at between 25,000 and 30,000; about one fifth of these have assets of at least $500,000 or make grants of $25,000 or more on an annual basis.

The largest share of foundation giving comes from the private general-purpose foundations. The table on the following page shows a group of 31, their grant *payments* for 1969 (the last year before the Tax Reform Act of 1969 took effect), 1971, and 1972, most recent assets, and the estimated federal excise tax liability due under the Tax Reform Act. Three foundations generally ranked in the top 10 of any listing are not included here, for 1972 information was not available. These are the Robert Wood Johnson Foundation, the Charles Stewart Mott Foundation, and the Pew Memorial Trust. The *Giving USA Bulletin* will cover these when information becomes available later in the year.

The 31 foundations listed account for around 25 percent of total estimated foundation giving and for 39 percent of total assets, estimated at about $30 billion today. No firm figure is available for the total excise tax due from all foundations to the federal government, but these 31 foundations estimate a liability of almost $30 million for 1972. In fiscal 1972, the Internal Revenue Service reported total tax paid of $56 million; from the estimated tax liability figures for these 31 foundations, it would appear that the IRS figure for fiscal year 1973 will be well over that of fiscal year 1972. Whatever the amount, this

Foundation Giving



Some Leading U.S. Private Foundations Ranked by Payment of Grants (000)

Foundations	1970 Grant Payments	1971 Grant Payments	1972 Grant Payments	Assets at Year-End (Market Value)	Estimated 1972 Federal Excise Tax Liability
Ford Foundation	$245,648	$232,114	$215,880	$ 3,423,258	$11,200
Rockefeller Foundation	38,013	40,600	40,613	989,329	2,024
Andrew W. Mellon Foundation	11,413	35,247	32,020	703,098	1,290
Kresge Foundation	6,729	8,082	26,085	892,000	5,729[1]
Edna McConnell Clark Foundations[2]	n/a	2,015	21,651	332,443[3]	1,500[3]
Duke Endowment	20,603	19,504	18,646	431,594	987
W. K. Kellogg Foundation	15,867	18,783	18,611	490,753[4]	809[4]
Carnegie Corporation of New York	12,744	13,732	14,621	351,815	442
Lilly Endowment, Inc.	7,738	9,887	14,258	1,250,000	1,800
Alfred P. Sloan Foundation	15,815	13,542	13,918	387,274	531
John A. Hartford Foundation, Inc.	15,882	13,478	12,474	191,880	417
Danforth Foundation	7,170	12,066	11,947	208,934	181
Commonwealth Fund	10,197	7,042	6,879	138,062	286
Moody Foundation	2,248	6,180	6,830	167,910	217
Bush Foundation	4,197	4,898	5,405	170,586	225
Haas Community Fund	2,014	4,003	5,142	188,075	81
El Pomar Foundation	3,086	2,088	4,972	80,000	132
Grant Foundation	3,108	3,328	4,754	63,175	191
Richard King Mellon Foundation	5,250	4,643	4,715	325,367	250
William R. Kenan Jr. Charitable Trust	4,100	4,665	4,573	113,357	none
Max C. Fleischmann Foundation	4,862	4,482	4,295	103,112	173
Research Corporation	3,216	3,747	4,208	88,000	128
John Simon Guggenheim Memorial Foundation	2,381	3,973	4,080	113,700	170
W. Clement & Jessie V. Stone Foundation	5,142	8,913	3,721	3,202	40
Charles Hayden Foundation	3,132	3,506	3,658	78,781	123
Z. Smith Reynolds Foundation, Inc.	4,127	3,528	3,334	2,540[5]	2[5]
Charles F. Kettering Foundation	3,750	3,431	3,331	111,783	135
Louis W. and Maud Hill Family Foundation	2,988	3,284	3,112	108,029	153
Sarah Mellon Scaife Foundation, Inc.	4,644	4,510	2,790	100,789	217
James Irvine Foundation	2,703[6]	1,711	2,290	113,462	97
Calleway Foundation, Inc.	3,472	5,175	1,927	68,083	127
Totals	$470,219	$502,084	$520,409	$11,746,198	$29,835

[1] *Includes capital gains tax.*
[2] *Includes both New York and Delaware foundations.*
[3] *Estimated.*
[4] *Includes W. K. Kellogg Foundation Trust.*
[5] *Does not include assets or excise tax of two trusts that feed the foundation.*
[6] *Appropriations basis—payments not available.*
Source: AAFRC survey, March, 1973. Community and corporate foundations are not included.

represents a direct loss to philanthropic causes.

The adjacent chart shows the total in grants of $10,000 or more and their distribution as recorded by the Foundation Grants Index of *Foundation News* during the last three years. The total for 1972 is some $280 million less than that recorded a year earlier, but it does *not* represent a drastic drop-off in foundation giving; rather, it reflects a change in recording by The Foundation Center as it shifted to a new computer-based system of storage and retrieval of grants information. Preliminary results of the *Survey of Voluntary Support of Education* for 1971-72 of the Council for Financial Aid to Education, based on replies from 1,093 colleges and universities, show total foundation contributions of $426.6 million, 25 percent higher than the prior year.

Community foundations are endowed grant-making philanthropies supported by and operated for the communities and local areas they serve. In general, their primary purpose is to maintain and improve the quality of the community's fiber and of its social and cultural life. Endowment gifts from the community are administered under the direction of a representative governing body of community leaders, who are responsible for grant programs and charitable activities. Donors sometimes mark out particular purposes for their gifts, subject to the governing body's power to alter restrictions because of changed community circumstances, thus ensuring the continuing charitable use of these funds in the community. Funds are professionally managed, often by trustee banks, and community foundation resources and activities are regularly reported to the public.

Because of their public nature, community foundations can qualify as "public charities" not subject to the four percent excise tax and other regulatory provisions that apply to private foundations. The current financial data for community foundations reflect this favored status. Recent community foundation growth has been substantial, with assets increasing more than 30 percent

Foundations' Distribution† (in millions)

	1970		1971		1972*	
Field	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Education	$281	36	$ 343	32	$179	23
Welfare	136	17	174	16	154	20
Health	121	15	156	15	131	17
Sciences	93	12	111	10	130	16
International	59	7	106	10	95	12
Humanities	52	7	103	10	65	8
Religion	51	6	73	7	30	4
Total	$793	100	$1,066	100	$784*	100

†Grants of $10,000 or more reported during 1970-72 in Foundation News

**Total not comparable to earlier years—see text*

Sixteen Large Community Foundations

	Assets (Market Value)	Total Grants
Committee of the Permanent Charity Fund, Inc. (Boston)	$ 83,055,362	$ 3,198,074
The Chicago Community Trust	95,749,780	3,358,289
The Cleveland Foundation	143,110,721	7,190,985
Hartford Foundation for Public Giving	46,324,127	1,284,300
The Indianapolis Foundation	18,005,325	733,210
Kalamazoo Foundation	26,575,007	1,447,308
New Haven Foundation	33,576,118	1,060,107
New York Community Trust	139,680,836	6,967,872
Philadelphia Foundation	25,562,450	1,127,759
The Pittsburgh Foundation	22,035,447	1,188,949
The Rhode Island Foundation	15,653,773	530,260
The San Francisco Foundation	44,680,872	6,088,783
The Vancouver Foundation	32,148,582	2,522,275
The Winston-Salem Foundation	27,785,002	1,007,331
California Community Foundation	22,836,836	1,572,000
Kansas City Association of Trusts & Foundations	16,000,000	802,361
Totals	$792,780,238	$40,079,583

Source: Council on Foundations

since early 1971.

Overall, preliminary data on some 245 community foundations in the United States and Canada indicate they are administering an aggregate $1.04 billion in assets. Total grants were about $53.9 million, and contributions received by community foundations were some $77.7 million for accounting years beginning in 1971. Asset, grant, and contribution figures are up by startling 30.9, 23.1, and 29.3 percentages, respectively, from data for years ending in 1970. Even though the two accounting periods are more than a year apart, the record is impressive.

Part of the increase is attributable to transfer of assets from private foundations. For example, the San Francisco Foundation reported one transfer of more than $17 million among total contributions received of more than $19 million, and several other community foundations indicated reasonably substantial receipts from private foundations.

Community foundations differ from private foundations in that their charters require them to focus their giving *within* their local community. They try to "make things happen, or help things happen, which couldn't or wouldn't without this kind of funding—flexible in time, amount, and conditions." Grants cover a wide diversity of community needs; as shown on the adjacent chart, almost half of every dollar goes for social welfare and civic improvement, two vital areas of special relevance to community foundations.

Community Foundation Distributions by Field

Field	1966	1968	1970	1971	Change from 1966
Education	21.4%	15.4%	16.4%	21.3%	— .1
Social Welfare	34.8	32.1	36.3	37.5	+ 2.7
Health	19.8	17.3	19.1	19.5	— .3
Humanities	9.4	10.5	9.8	10.5	+ 1.1
Religion	2.4	2.6	2.1	1.5	— .9
Civic Improvement	7.5	15.6	15.2	9.3	+ 1.8
Other	4.7	3.5	1.1	.4	— 4.3

Source: Council on Foundations

Corporations

Corporate giving figures have been adjusted in this edition to reflect preliminary estimates from the Internal Revenue Service of $797 million for 1970, a drop of 24.5 percent from 1969's $1.055 billion in corporate contributions. Although the AAFRC had predicted a decrease in 1970, it fell short of the IRS figure, and the tables have been changed. Estimates for 1971 and 1972 reflect the turn-around in the economy, keeping in mind that even though corporate profits before taxes reached a new high in 1972, after-tax profits, estimated at 4.20 percent of sales for 1972, are still well below the 4.82 percent recorded in 1969 and the record 6.40 percent in 1965.

Based on a very recent AAFRC survey of giving for 1970, 1971, and 1972 covering 30 companies and their foundations, together with data from the Council for Financial Aid to Education on giving to education only by 76 companies for the same years, and still further data from another source on total giving for 55 companies for the years 1970 and 1971, it would appear that corporate giving increased by about 5.5 percent over the last two years, with most of the increase coming in 1971. All three surveys concentrated on major donors, and thus the picture may be distorted. The AAFRC survey, for example, included only 2 companies who gave less than $1 million; 10 contributed between $1 and $2 million, another 10 between $2 and $5 million, and 8 gave $5 million or more. Of the 30, 6 companies decreased their giving by an average 19 percent over the two-year period; 24 increased by 12.7 percent. Taken together, the 30 companies gave $119,875,000 in 1970, $124,562,000 in 1971, and $124,987,000 in 1972. The percentage increase for the two-year period is 4.3, and in each case the total is approximately 15 percent of estimated total corporate giving. For 1973, total estimates for 21 companies are up by more than 10 percent; 19 companies project increases, 2 decreases.

About 45 percent of the 1972 survey total comes from corporate *foundations*, but it is not known how much was given by corporations to their foundations in 1972. Contributions made by corporations to their foundations are, of course, shown in the IRS figure; giving by corporate foundations is not. When the foundations were set up, major contributions were made in good profit years for the purpose of helping to maintain a giving pattern over poor years. In 1970, the IRS contributions figure of $797

Corporate Giving

Year	Profits Before Tax (billions)	Amount Contributed (millions)	% of Profits Subject to Tax
1963	$54.3	$657	1.21
1964	61.6	729	1.18
1965	77.8	785	1.01
1966	80.5	805	1.00
1967	79.6	830	1.04
1968	87.6	1,005	1.15
1969	84.9*	1,055	1.24*
1970	74.3*	797†	1.07*
1971	83.3*	840*	1.01*
1972	93.3	840	90

*Revised—March 1973

†IRS preliminary estimate

million—a drop of almost 25 percent from 1969—surely reflects the fact that many corporations did not in that year contribute to their foundations. In many giving areas, however, contributions *attributed to* corporations decreased by far less than 25 percent, or showed no decrease, for earlier contributions to the foundation made continued support possible. For example, the CFAE *Survey of Voluntary Support of Education* showed corporate giving fell but 3.8 percent in 1970-71.

A Conference Board survey undertaken in late 1970 of 240 corporate foundations showed that approximately 10 percent were being phased out, perhaps in part because of the 1969 Tax Reform Act. If this is a continuing trend, far less continuity in corporate giving can be predicted for the many philanthropic causes which depend upon it. Of the 100 largest corporations listed by *Fortune*, more than 60 percent today have foundations.

The contributions estimates given here are subject to revision later in the year, as questionnaires are now being filled out by some 500 companies for the *Biennial Survey of Company Contributions* of the Conference Board. Results of this survey will be reported in an early edition of our monthly *Giving USA Bulletin*.

Before going on to areas of philanthropic opportunity, one further point should be made regarding corporations. Dollars are but a part of the contributions made by business and industry to our society. A piece of equipment or products given to a philanthropic cause—an educational institution, drug addiction center, home for the aged, or for disaster relief—may be many times the value of the dollar amount shown on the IRS return. What is the value of sophisticated analytical equipment to assist the professor in a college or small university where the equipment is not available? What is the value of the outstanding authorities provided by business and industry at no cost? What is the value of broadcasting opera, fine drama, symphony concerts, programs on the environment, wildlife, and missions to the moon, or of building a f[illegible] headquarters that includes a small park for picnickers in a busy city? As can readily be seen, "corporate giving" figures represent only a part of the total corporate contribution throughout the year.

Religion

A revitalized spirituality and a change of emphasis by many congregations from national to local concerns together with a lessening of political activism were among the dominant themes in American religion in 1972. Many people were seeking spiritual fulfillment through organized religion and also through less traditional groups. Scores of spiritually oriented communes have sprung up around the country in the last few years in search of new religious life styles; saffron-robed Hare Krishna kids dance and sing on street corners, inviting all to Sunday services.

Reacting to these needs, some clergymen are returning to the task of providing spiritual solace. At the beginning of 1973, a year-long evangelical drive was under way with the backing of more than 140 church groups in the United States and Canada, including most of the major denominations. Called Key 73, the campaign will directly or indirectly involve 100 million Christians and nearly 250,000 parishes and congregations.

Membership Total church membership in 223 denominations at the start of 1972 was 131,389,642, representing 63 percent of the total population. This was an

Church Membership (in millions)

Source: National Council of Churches

increase of 343,689 persons and may be in part a result of the new activity. Slight increases in membership from 1970 to 1971 for many of the smaller conservative Protestant churches were recorded by the National Council of Churches (NCC); on the other hand, many of the larger liberal Protestant denominations reported small declines. Information for 1972 is not available from the NCC at present. The Southern Baptist Convention, largest Protestant denomination in the nation, has, however, released its figures for 1972, with total membership up approximately two percent to 12,067,284.

Catholics numbered 48,390,990 at the beginning of 1972, up 176,261 over 1971. The 31 archdioceses, including seven with Catholic populations in excess of one million, reported a growth of 138,940, while the 133 dioceses increased by 37,341. Catholics represent 23.3 percent of total population.

The six major black denominations—of which the largest is the National Baptist Convention, U.S.A., Inc., with 6.3 million members—have a total membership of approximately 13.5 million nationwide.

Attendance Churchgoing in the U.S. leveled off in 1972 after a fairly steady decline in attendance over the last five years, according to the annual Gallup poll. In a typical week of 1972, 40 percent of adults attended church or synagogue, the same percentage as a year ago. In 1970, the percentage recorded was 42, and in 1955, a high point in church attendance, the percentage was 49. The sharpest drop since 1955 has come among Catholics; at that time, three in four attended church in a typical week. The present percentage is 57. For Protestants, the percentages are 42 in 1955, 36 in the current year.

The age structure of a sample consisting of 564 U.S. and 98 Canadian Protestant congregations, as reported in the recent North American Interchurch Study of the NCC, showed more youth as members of U.S. parishes

Giving To Religion (in billions)

than was true in Canada. The data, which indicated that Canadian church strength is in the age group of 40-64 years, showed a more even age distribution in the U.S., with a higher percentage of persons under 40 and members under 20. These data may be one of the factors in the positive outlook on the future of the church held by a majority of the U.S. pastors interviewed for the study.

Giving Trends Total contributions to the nation's major Protestant churches rose in 1971, the latest year for which statistics are available. Compiled by the National Council of Churches, the 1971 total for 42 denominations equaled $4.387 billion, $560 million more than the previous-year total of $3.827 billion reported for 45 denominations. The average gift for the year was $103.94, compared with an average yearly gift of $96.84 per full member in 1970. For 1972, the Southern Baptist Convention, largest of the Protestant denominations, reported total contributions of $1.072 billion, an increase of almost ten percent over 1971 and 20 percent above 1970's $892 million; the average gift increased from $82.44 in 1971 to $88.79 in 1972.

In addition to giving to the local parish church, Catholics are requested to support their regional diocese or archdiocese. An annual diocesan development fund survey of the National Catholic Stewardship Council includes six dioceses and one archdiocese with comparable information for 1971 and 1972. In 1972, the total pledged for the seven rose from $6,278,921 to $7,214,014, a 15 percent increase; at the same time, total Catholic population in these areas grew but one percent. The Diocese of Brooklyn is not included in the NCSC survey; one of the largest dioceses in the country, it reported total 1972 contributions of $1,004,418, an increase of $242,143, or 32 percent, over 1971.

From the above, it must be concluded that giving to religion on an individual basis reached an all-time high of $9.75 billion in 1972. This is a 9.6 percent increase

Protestant Giving in 12 Denominations

1971 Figures Shown with Increase or Decrease for 1970

Church & Membership	Total Contributions (millions)	Average Gift
American Baptist Convention (1.56 million)	+$1.23 to $133.58	−$4.41 to $85.45
American Lutheran Church (2.52 million)	−$2.37 to $174.65	−$.35 to $69.25
Church of the Nazarene (394,197)	+$7.90 to $93.0	+$13.90 to $235.93
Episcopal Church (3.22 million)	+$8.84 to $257.54	+$4.31 to $80.00
Lutheran Church in America (3.07 million)	+$11.26 to $223.17	+$4.49 to $72.70
Lutheran Church—Missouri Synod (2.79 million)	+$11.35 to $252.51	+$4.09 to $90.57
Presbyterian Church in the U.S. (949,857)	+$7.35 to $145.97	+$9.01 to $153.68
Seventh-Day Adventists (433,906)	+$14.27 to $169.12	+$21.45 to $389.77
Southern Baptist Convention (11.82 million)	+$82.93 to $974.92	+$5.73 to $82.44
United Church of Christ (1.93 million)	+$3.15 to $185.33	+$3.17 to $96.09
United Methodist Church (10.33 million)	+$23.16 to $843.10	+$3.48 to $81.50
United Presbyterian Church in U.S. of America (3.01 million)	+$10.97 to $368.06	+$6.49 to $122.12

Total Membership: 42.14 million (1970)
42.03 million (1971)

Total Contributions:
1970—$3,640,890,000
1971—$3,820,930,000 (up 4.9%)

Mean Average Gift:
1970—$86.40
1971—$90.90 (up 5%)

Source: *Yearbook of American and Canadian Churches*
© National Council of Churches (1973)

Enrollment Growth Shifts

Fall 1967 Enrollments: 56.3 Million

Fall 1972 Enrollments: 60.8 Million

Source: Office of Education, U.S. Department of Health, Education, and Welfare

over 1971.

Other Trends The value of new construction increased five percent in 1972 to $852 million, marking the fourth year in a row that this figure has been below $1 billion. The Bureau of Domestic Commerce estimates an increase to $875 million for 1973.

Large gifts of $1 million or more recorded by the American Association of Fund-Raising Counsel totaled $6.9 million this year, about half of the total recorded in 1971.

Education

Education processes in the United States in 1972-73 involve 64 million persons—more than 30 percent of the total population—60.6 million students, 3 million teachers, and 300,000 administrators—with total expenditures of $90.2 billion.*

Total **enrollment** of 60.6 million students in fall 1972 shows an increase of only one half of one percent over a year earlier, the lowest increase in more than 26 years. Enrollment from kindergarten through the 12th grade totals 51.3 million, a decrease of 280,000 over 1971. Of the total, 5.2 million are in nonpublic schools.

Emerging trends in age groups resulting from the birth rate are expected to affect enrollment in the coming years. Latest projections indicate enrollment in elementary schools will decline slightly for the next five years, while high school and college enrollments continue to grow. Starting in 1977, and for several years thereafter, high school enrollment is expected to taper off. These reductions may not affect college enrollment, however, if a growing percentage of high school graduates continue on to college.

In the area of higher education—universities, colleges, teachers colleges, and junior colleges—enrollment reached 9,255,000; 8,220,000 are enrolled in degree-credit programs, of which 2.1 million, or 26 percent, are in nonpublic institutions. The number of black undergraduates in American colleges and universities tripled between 1965 and 1971, from 207,000 to 631,000 and accounts for nine percent of all American undergraduates, according to the Census Bureau. Almost 11 percent of total U.S. population is black.

---

*Source of statistics in this section: U.S. Office of Education, National Center for Educational Statistics.

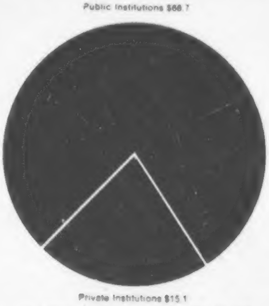
Some 2,318,000 **teachers** are in elementary and secondary schools; 216,000 of these, 1,000 less than a year ago, are in nonpublic schools. Faculties in institutions of higher education number 620,000, an increase of 17,000. All but one thousand of this increase were accounted for by the public institutions, one indication of the stringent measures private schools have embarked upon to balance budgets.

New construction of nonpublic schools at all levels reached a peak in 1969 at a total cost of $1.029 billion; in 1972, it stood at $971 million. New construction for public institutions reached $6.061 billion in 1968 and $5.6 billion in 1972.

The value of the educational establishment can be roughly estimated at $135 billion as of 1970, with replacement costs far beyond this. Of the total, $42.1 billion represents physical plant value of institutions of higher education, and $10.9 billion (book value) represents endowment funds. Physical plant value and property for the public elementary and secondary schools account for $70 billion.

The Costs of Education Expenditures of public and private education from kindergarten through graduate school for 1971-72 are estimated at $83.8 billion, an increase of 9 percent over 1970-71's $76.9 billion. Preliminary estimates place the 1972-73 figure at $90.2 billion, an increase of 7.6 percent over 1971-72. Expenditures in 1971-72 represent 8 percent of the Gross National Product, for 1972-73, 7.8 percent. This percentage has been rising for more than a quarter of a century.

Expenditures for Education, 1971-72 (in billions)



Source: Office of Education, Department of Health, Education and Welfare

BEST COPY AVAILABLE

Expenditures for Education by Source of Funds 1971-72 (in billions)

	Public Schools	Private Schools
Elementary & Secondary Schools:		
Federal	$ 4.3	$ —
State	19.2	—
Local	25.2	—
Other	0.1	5.1
Higher Education:		
Federal	$ 3.0	$ 1.8
State	7.8	0.2
Local	1.0	0.1
Other*	8.1	7.9
Total	$68.7	$15.1

*Includes loans from all sources. It is estimated that in 1972 about $40 million of the amounts are from federal loans.

Source: Office of Education, Department of Health, Education, and Welfare.

The low point in modern times was 1.8 percent in 1943-44, when the nation was fighting World War II.

In both the public and private sectors, current operating expenditures for higher educational purposes have been increasing at a faster pace than those for elementary-secondary education. This trend is expected to continue as enrollment growth shifts toward college.

Giving Trends Historically, philanthropy has set standards for increasing the growth and strength of the nation's educational system. As the system has grown, so has support—both public and private. Federal government support for all levels of education has grown from $2.1 billion in 1963 to $9.1 billion in 1972; for 1973, it is expected to reach $12.8 billion. The largest percentage of increase, however, is in grants for vocational-technical and continuing education, which is 21 times greater today than in 1963. Appropriations by the 50 states for higher education's operating expenses grew from $1.9 billion in 1962-63 to about $7.7 billion in 1971-72; for 1972-73, the figure is $8.5 billion.

In 1962, philanthropy supplied $1.62 billion to education; for 1972, it is estimated that private sources provided $3.57 billion to education, an increase of 10 percent over last year's $3.25 billion. As a percentage of total education expenditures, philanthropy in both 1971 and 1972 supplied 3.9 percent; in 1970, 4 percent; in 1968, 4.8 percent; in 1962, 5.5 percent. Although it has declined over the past, philanthropy continues to play a crucial role in education support, particularly in the independent sector.

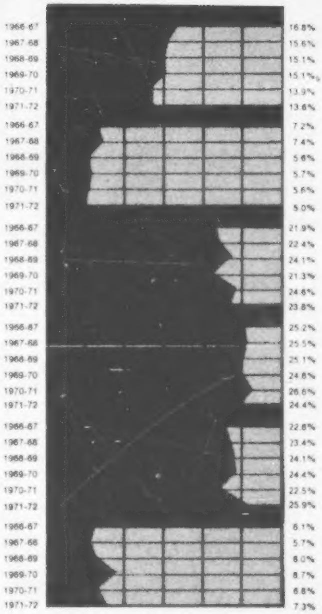
Preliminary figures from the Council for Financial Aid to Education's annual *Survey of Voluntary Support of Education*, with 1,093 colleges and universities participating in 1971-72, show an increase of 9.5 percent in private gifts and grants over 1970-71, when 1,080 institutions participated. Total support for the 880 institutions participating in both surveys—614 private four-year schools, 177 public four-year institutions, and 89 two-year colleges—was $1.40 billion in 1970-71, $1.53 billion in 1971-72, an increase of 9.2 percent. The largest increase in giving by donor category was 25 percent for foundations; of the total given, foundations in 1971-72 contributed 25.9 percent. Other categories, with the percentage share of the total for each, are nonalumni individuals, 24.4 percent; alumni, 23.8 percent; business corporations, 13.6 percent; religious denominations, 5.0 percent; and other, 7.3 percent. All categories registered increases in giving except religion. A complete review of the survey will be included in the *Giving USA Bulletin* upon its publication late in the spring.

The National Association of Independent Schools reported that 575 schools, or 72.3 percent of its membership, had total gifts of $122 million in 1971-72, an increase of 13.5 percent over 1970-71's $107.5 million for 554 schools. Capital giving amounts to about 65 percent of the total, a larger percentage than that for the higher educational institutions.

Two other reports are also of interest. The United Negro College Fund, which carries on an annual campaign to raise operating revenues to aid its 40 predominantly black member colleges, received $11.2 million in 1972, 19 percent more than a year earlier. The Independent College Funds of America, the national coordinating and service center for 40 state and regional associations representing 550 colleges, reported total grants to the associations for 1971-72 at $18.7 million, an increase of 12.7 percent over the prior year.

An annual survey undertaken by the AAFRC shows completion in 1972 of 11 college and university campaigns of $10 million and over, which raised a total of $524 million; announcement of 20 new campaigns with total goals of $820 million, which by the end of the year had raised $144.7 million; and on-going campaigns for 74 institutions, which in 1972 raised $312 million toward their objectives.

Giving to Higher Education*



*Source: Council for Financial Aid to Education

The Product The high school graduating class of 1973 is expected to exceed 3.1 million, the largest graduating class in history. The number of graduates reflects the high birth rate of the 1950s, as well as the increasing tendency of young Americans to remain in school at least until graduation from high school (approximately 78 percent graduate, and about half of these may be expected to enter a college degree-credit program).

During 1972-73, bachelor's and first-professional earned degrees conferred are estimated at 958,000, up by 55,000 over a year earlier; master's 256,000, up 18,000; and doctorates 38,000, up 3,000. In each case, the estimates for 1972-73 represent all-time highs.

A 1972 Census Bureau report notes a dramatic change in national educational attainment since 1940. At that time, with an over-25 population of almost 74 million, 14.7 percent had some college or more; 24.9 percent only high school; and 60.4 percent only elementary school. Today, with the over-25 population numbering more than 111 million, 34.9 percent have had at least some college; 40.3 percent only high school; and but 24.8 percent only elementary school. The report also noted that among employed men who earned $15,000 or more last year, the median education level was 15.2 years; for those who earned less than $3,000, the education median was 10.7 years.

Although blacks as a whole still lag almost two years behind the white median of 12.2 years of education, the gap is closing, particularly at younger age levels. Among whites aged 20 and 21, for example, the median education level is now 12.8 years, whereas for blacks of these ages, it is 12.4 years, less than a half year behind.

Elementary and Secondary Schools Public elementary and secondary schools in the United States number 89,372, with some 1.8 million instruction rooms. The nonpublic schools number 18,142. For the public schools, particularly in large urban areas, the scene was not always a bright one during the past year. Teacher strikes, student boycotts, parent protests, racial tension, and vandalism are among the problems. On the other hand, continuing efforts are being made by educators, school boards, legislators, and community groups toward spending every educational dollar more effectively. Some of the new directions are increased reliance on technology, innovative teaching programs, geared to the less advantaged child, and increased emphasis on meaningful career education to prepare today's students for tomorrow's jobs. In many areas, the business community is involved with local school systems, both as suppliers of equipment and as future employers of new graduates.

Church-related educational institutions, troubled over recent years, found little improvement in 1972 in their problems, which arise in no small part from the matter of public money for support of nonpublic educational institutions.

Nonpublic school aid laws were enacted during the year in the face of discouraging court decisions. Six states passed new major programs of aid to private and church-related schools, chiefly in the form of tax credits or direct grants to parents of nonpublic school children.

The problem is accentuated in the Catholic elementary and secondary schools, which in the 1972-73 school year show a continued decrease in both enrollment and number of schools. National Catholic Educational Association estimates place total Catholic school enrollment for 1972-73 at 3.82 million, down from last year's 4.03 million. This represents a 5.2 percent decrease compared to a 7.7 percent drop last year. On the other hand, the number of students at Catholic colleges and universities increased slightly to 428,853, even though the number of institutions decreased to 260, down 23 from 1971. The cause of decline is a matter of opinion. Some hold it is due to lack of money and shortage of nuns or brothers as teachers, while others charge fewer Catholic

Large Gifts to Education—1972

Donor / Amount / Recipient

Frederick W. Beinecke—$14 million
Yale University

M/M Sidney Lewis—$9 million
Washington and Lee University

Ambassador Walter H. Annenberg—$8 million
University of Southern California

Roy C. Lee and Mrs. Henrietta C. Lee—$7.25 million
Warner Pacific College

Foster G. McGaw—$7 million
Loyola University of Chicago

David Packard—$6.8 million
Colorado College

Anthony O. R. Baldridge—$6 million
Cornell University

Danforth Foundation—$5 million
Berea College

Robert Wood Johnson Foundation—$5 million
Meharry Medical College

Robert Wood Johnson Foundation—$4 million
Nation's Dental Schools

Daniel Foundation—$4 million
Furman University

John Simon Guggenheim Memorial Foundation—$3,819,000
Fellowship Awards to 372 Scholars, Scientists, and Artists

Lucie Stern Trust—$3 million
Stanford University

Eight Tobacco Companies and Tobacco Growers Association—$2.8 million
Harvard Medical School

Alfred P. Sloan Foundation—$2,492,000
Eight Institutions

Andrew W. Mellon Foundation—$2,125,000
24 Universities for Presses

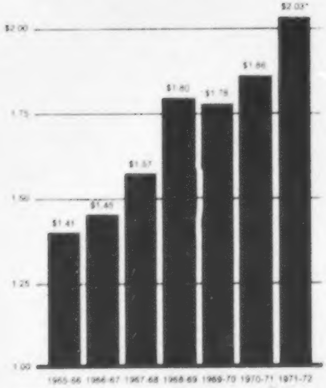
Ford Foundation—$2,102,000
College Entrance Examination Board

Fairchild Foundation—$2 million
Virginia Union University

Jacob S. Leedon—$2 million
Cornell University Medical College

RCA Corporation—$2 million
Harvard Business School and Massachusetts Institute of Technology School of Management

Estimated Total Voluntary Support of Higher Education
(in billions)



*Preliminary
Source: Council for Financial Aid to Education

parents are sending their children to Catholic schools, even though the quality of education in those schools usually equals and often tops that in public schools.

The prevailing trends in Catholic school enrollments are not reflected in **independent** school figures. The National Association of Independent Schools (NAIS), which has a membership of 794, has reported a continuing pattern of slightly increasing over-all enrollments, 1.1 percent in 1970 and 1971, 2.1 percent in 1972, for 604 of its schools. A major part of the increase is accounted for by the coeducational day schools, which enroll some 55 percent of the students. But these independent elementary and secondary schools continue to be hampered by financial and organizational problems.

Of 531 member schools of the NAIS reporting financial information for 1971-72, 260 operated at a deficit, 27 broke even, and 244 showed income in excess of expense. Not surprisingly, the total cost per student is greater in boarding schools than in day schools because of the extra services provided for boarding students. Average dollar costs per student range from a low of $1,543 for a coed elementary day school to a high of $4,989 at a boys' boarding school.

Budget cutting has led to reduction in services and "luxuries" of private-school life, with many students now performing services once provided by housekeepers. Although this financial stringency affects only about one percent of the total educational population, it does not touch only the affluent. Parents of middle-class children who need more attention than the public schools afford stretch their family budget to send their children to private schools. Scholarships granted by 590 schools in 1972-73 amounted to $29,093,000 for 23,427 students, providing a needed diversity in the student body. Projected figures for the ten years ahead indicate further stringent economies and a need for increases in private contributions.

Higher Education Institutions of higher education number 2,671 in the United States and Territories, 1,186 public and 1,485 nonpublic colleges and universities. Of these, 967 are two-year junior or community colleges.

For higher education, 1972 appears to be a turning point for many colleges in their efforts to balance expenditures and income. As reports for the past year have been coming in, it has been noted that more and more colleges and universities that had been operating in the red over the past two or three years are now operating in the black. Efforts to increase support while cutting back spending wherever possible are bringing many higher education institutions to a more viable financial position this year. While this has been happening, administrators and others concerned in planning are taking stock of the strengths and weaknesses of their individual institutions, setting new goals and priorities, and firming up the purpose and role of each. Higher education has successfully met the challenges of the 1960s, supplying faculty and facilities for a student body which has grown from four million in 1961 to more than nine million today. The challenges today are in finances and management. The demand for resources to support the institutions of higher education far exceeds the supply, but with increased support and improved management techniques, the colleges and universities of the land will continue to fulfill their important mission.

Health and Hospitals

High costs continue as the most visible problem in the health field during 1972. Government controls did have some effect. Although such expenditures increased more than 10 percent over 1971, this was the lowest rate of increase in six years.

Government plays a widening role in providing health services, although emphasis has shifted from bricks and mortar and hospital beds to other areas. Federal outlays for health have increased from less than $1.4 billion in

Large Gifts to Health Causes—1972

Donor / Amount / Recipient

Murry and Leonie Guggenheim Foundation—$22 million
Mt. Sinai Hospital

S. Howard Young—$20 million
Lakeland Memorial Hospital

Conrad H. Hilton—$10 million
Mayo Foundation

Abra C. and John Rockefeller Prentice—$2.5 million
Northwestern Memorial Hospital

Robert Wood Johnson Foundation—$2.4 million
Middlesex General Hospital

Mrs. Nathaniel Leverone—$2 million
Rehabilitation Institute of Chicago

Schumann Foundation—$2 million
Mountainside Hospital

Mrs. Grace M. Showalter—$2 million
Indianapolis Methodist Hospital

W. Alton Jones Foundation—$1.8 million
Tissue Culture Association

Mrs. Rose McCourt—$1.25 million
French-Polyclinic Health Center

Ford Foundation—$1.2 million
Drug Abuse Council

BEST COPY AVAILABLE

1963 to an estimated $18 billion in 1973, with another $3.7 billion increase projected for 1974. More attention is being paid in current budgets to manpower needs, research in major diseases, and health planning and development.

The shortage of physicians has been alleviated somewhat by new medical schools, shortened curriculums, and increasing enrollment. Inadequate distribution of doctors still leaves some rural and poorer urban areas without adequate medical care.

Philanthropy continues to play an important role in health care. In 1972, philanthropy provided more than four percent of total health cost and about 30 percent of private construction costs. Dollar contributions to health during the year increased to an estimated $3.68 billion.

The Costs of Health Care Despite government attempts to slow down inflation through price control, the overall costs of health care in the United States in 1972 increased by 10.3 percent to $83.4 billion. This meant an average outlay for health of $394 per person, an increase of $33 over 1971.

Since 1965, medical costs have risen nearly 50 percent, while the costs of all goods and services rose about 32 percent. In 1972, health expenditures equaled 7.6 percent of the Gross National Product, a slight increase over 1971.

Government spending for health rose 15 percent in 1972, to nearly $32.9 billion. Private expenditures rose 7.5 percent to a total of $50.6 billion. Government's share equaled 39 percent of the total, continuing an upward trend since the introduction of Medicare in 1965, when public funds paid 25 percent of the bill. Two thirds of public funds came from the federal government, a situation relatively unchanged.

Of the $83.4 billion total, hospital care again took the largest share, $32.5 billion, or 39 percent. Physicians took the second largest share, $16.2 billion, while $7.9 billion was spent on drugs and $5 billion with dentists.

Registered Hospitals in the United States

Type and Number of Hospitals	1969	1970	1971
Federal	426	408	407
Non-Federal			
Psychiatric	488	519	513
Tuberculosis	238	101	94
Long-Term General and Special	305	238	218
Community	5,407	5,859	5,865
Total	6,876	7,123	7,097

Research accounted for more than $2 billion, while construction took $4.1 billion.

Personal Health Care Americans spent $71.9 billion for personal health care in 1972. Of this total, $45.1 billion came from private sources and $26.8 billion from public sources. Insurance benefits paid $19 billion, or 42 percent of the private bill. The rest came from direct payments by the consumers or from philanthropy. The federal government paid about two thirds of public expenditures. Federal outlay under the Medicare program increased almost $1 billion to $8.8 billion.

Out of his own pocket, the average consumer paid directly about 8 percent of his hospital bill, 41 percent of his doctor's bill, and 68 percent of the cost of other health services.

Hospitals in the United States Each year the American Hospital Association conducts a statistical survey of hospitals in the United States and associated areas. Its latest report, covering fiscal year 1971, shows 7,097 registered hospitals, 26 less than in 1970. The number of community hospitals increased by six, while there were fewer hospitals in all other categories. As community hospitals increased the variety of specialized services available, some long-term and specialized hospitals went out of business, while others decreased in bed size.

One out of every six U.S. residents entered a hospital during 1971. Admissions totaled nearly 32.7 million. Hospital expenditures rose 12.7 percent to $28.8 billion, or 2.76 percent of the Gross National Product.

All hospitals together had assets of $38.6 billion, of which $28.2 billion was in plant assets.

Community Hospitals About 83 percent of all registered hospitals in 1971 were community hospitals, defined as nonfederal, short-term general or special hospitals. They contained 56 percent of the beds, but admitted 92.3 percent of the patients (see the accompanying table for precise statistics).

Change in Community Hospitals

	1970	1971
Number of Hospitals	5,859	5,865
Number of Beds (000)	848	867
Average Bed Size	145	148
Admissions (000)	29,252	30,142
Births	3,403,064	3,337,605
Average Daily Census (000)	662	665
Outpatient Visits (000)	133,545	148,423
Average Length of Stay—Days	8.2	8.0
Occupancy Rates (%)	78.0	76.7
Total Expenses (000)	$19,560,000	$22,400,000
Number of Personnel*	1,929,000	1,999,000
Payroll Expenses (000)	$11,421,000	$13,053,000
Average Annual Salary	$ 5,921	$ 6,529
Expense Per Patient Day	$ 81.01	$ 92.31
Total Assets (000)	$26,674,000	$29,609,000
Plant Assets (000)	$18,132,000	$20,076,000

*Adjusted for part-time personnel

Voluntary Nonprofit Hospitals Seventy percent of community hospital beds are in voluntary nonprofit short-term general and special hospitals. Three out of four patients admitted to community hospitals go into voluntary hospitals, although only 57 percent of community hospitals are of this type (see table for precise statistics).

Health Facilities Construction During fiscal year 1972, expenditures for medical facilities construction in the U.S. are estimated at nearly $4.1 billion, an increase of nearly 14 percent over the 1971 total of $3.6 billion.

Private sources supplied $2.7 billion, while public sources suppli[illegible]rly $1.4 billion (see table). Federal sources supplied about 43 percent of the public funds. The federal government put $332 million into privately owned facilities, while state and local governments contributed a scant $14 million to private facilities.

The trend toward increasing medical construction costs continues, particularly in the private sector. A report issued by the U.S. Bureau of Domestic Commerce estimates the value of private new construction put in place during *calendar year 1972* at $3.182 billion, a 10 percent increase over 1971, and projects $3.750 billion in private construction during 1973. Value of public construction increased from $981 million in 1971 to $1.05 billion in 1972 and is projected at $1.35 billion for 1973.

As construction costs increase and direct government aid declines, private voluntary nonprofit institutions may have to widen their search for philanthropic funds. Such evidence of community support will tend to make borrowing easier, and a well-directed fund-raising campaign to raise the necessary "down payment" for new construction and modernization programs will provide funds without the concomitant need to raise already high rates that borrowing brings.

Hill-Burton Program Between 1947, when the first Hill-Burton grant was awarded, and June 30, 1971, a total

Medical Facilities Construction

(in millions)

Source of Funds	FY 1971	FY 1972	% of 1972 Total
Private	$2,282	$2,700	66%
Public			
Federal Funds	541	598	15%
State & Local Funds	782	800	19%
Total	$3,605	$4,098	100%

Source: Social Security Bulletin, January 1971 of 10,748 projects for construction of various types of health facilities was approved for funding under the program. Total costs for these projects were $12.8 billion, of which $3.7 billion was provided from Hill-Burton funds and $9.1 billion from state and local funds.

Construction funds were provided to 6,265 public and voluntary nonprofit facilities in more than 3,800 communities. More than 470,000 inpatient beds were provided. Thirty percent of the projects were for outpatient and rehabilitation facilities, public health centers, and state laboratories. Fifty-one percent of the projects were for voluntary nonprofit facilities, housing 60 percent of the new beds, which got 59 percent of all Hill-Burton funds.

Established in 1946 by enactment of the Hospital Survey and Construction Act, the program originally was intended mainly to provide new hospital beds in poor rural areas. Succeeding amendments widened the scope of the program to include modernization of obsolete urban hospitals, construction of nursing homes, diagnostic and treatment centers, and rehabilitation facilities. In 1948, 78 percent of these funds went for new hospital construction. By 1971, only four percent was spent for new facilities. Modernization projects received nearly all Hill-Burton funds for general hospitals during that year.

Sweeping amendments to the bill in 1970 authorized appropriations over a three-year period totaling $1.2 billion in grants, provided a $500 million program for loans and loan guarantees, and broadened provisions for establishment of outpatient facilities.

Prospects for continuation of the Hill-Burton program are poor, however. A head-on clash between Congress and the Administration came in 1970 when the President vetoed the bill. Congress overrode the veto, but the Administration has spent little of the funds in the past year and has eliminated grants from its 1973 budget. Comparison of appropriations with funds obligated over the past decade shows the effect of the Administration's

Change in Voluntary Nonprofit Hospitals

	1970	1971
Hospitals	3,386	3,363
Beds	592,000	604,000
Admissions (000)	20,948	21,515
Births	2,491,938	2,445,819
Average Daily Census	474,000	477,000
Outpatient Visits (000)	90,922	103,016
Average Length of Stay—Days	8.2	8.1
Occupancy Rates (%)	80.1	79.0
Total Expenses (000)	$14,163,000	$16,344,000
Number of Personnel	1,387,000	1,438,276
Payroll Expenses (000)	$ 8,340,000	$ 9,531,583
Average Annual Salary	$ 6,013	$ 6,627
Expense Per Patient Day	$ 81.80	$ 93.84
Total Assets (000)	$20,502,000	$22,637,000
Plant Assets (000)	$13,783,000	$15,258,000

reluctance:

Year	Appropriations	Funds Obligated
1963	$220,000,000	$216,568,260
1965	220,000,000	217,382,220
1967	270,000,000	266,900,426
1969	267,200,000	265,446,525
1970	172,200,000	169,788,332
1971	171,720,000	29,065,107
1972	194,900,000	1,349,481

This dispute continues. The ultimate outcome is not certain, but the future looks dim for proponents of direct federal grants for construction.

National Health Agencies The average citizen's chief avenue for expressing his concern with health problems is through participation—as a donor or volunteer—in the work of voluntary health agencies, national, regional, and local. The 10 leading national health agencies alone

National Health Agencies

Agency	Total Amount Raised 1972	Contributions	Bequests	1971
American Cancer Society	$ 78,818,538	$ 62,044,243	$16,774,295	$ 70,064,122
American Heart Association	50,900,481	39,534,825	11,365,656	45,499,856
National Tuberculosis & Respiratory Disease Assn	41,916,096	40,547,486	1,368,610	42,025,966
The National Foundation	35,345,971	34,090,688	1,255,283	27,778,351
National Easter Seal Society for Crippled Children & Adults	31,789,738*	28,342,138	3,447,600	28,899,762
National Association for Retarded Children	21,080,030	21,000,000	80,030	18,500,000
Muscular Dystrophy Associations of America, Inc	19,030,993	18,302,416	728,577	14,494,619
United Cerebral Palsy Association, Inc	16,279,914	15,691,296	588,618	15,040,575
Planned Parenthood Federation of America, Inc	15,600,000*	15,400,000	200,000	14,221,813
National Association for Mental Health, Inc	11,828,000*	11,518,000	310,000	11,112,189
National Multiple Sclerosis Society	10,642,567	9,870,536	772,031	9,393,553
The Arthritis Foundation	9,681,200	7,735,800	1,945,400	8,208,194
National Cystic Fibrosis Research Foundation	5,400,000	5,350,000	50,000	4,476,581
National Kidney Foundation	5,090,743	5,043,886	46,857	2,572,887
Leukemia Society of America, Inc	5,188,574	4,919,584	268,990	5,000,000
Epilepsy Foundation of America	3,159,900	3,119,450	40,450	2,752,827
American Foundation for the Blind, Inc	3,092,512	1,018,711	2,073,801	2,440,917
National Society for the Prevention of Blindness, Inc	2,730,000	1,880,000	850,000	2,100,000
National Council on Alcoholism	2,500,000	2,499,000	1,000	2,500,000
Damon Runyon Memorial Fund for Cancer Research	2,401,800	555,400	1,846,400	1,368,800
Recording for the Blind, Inc	1,612,295	1,565,001	47,294	1,245,568
Totals	$374,069,352	$330,028,460	$44,040,892	$331,891,210

*Estimated

report nearly 15 million volunteers for their causes. At least two thirds of these engage in fund-raising activities.

And they are effective. Twenty-one of the largest such agencies, responding to an annual survey conducted by the American Association of Fund-Raising Counsel, report 1972 contributions totaling $374,069,352, up 12.8 percent from 1971. Twelve percent of the total, or $44 million, came in the form of bequests, an increasingly important channel for giving.

Most successful again was the American Cancer Society, which used two million volunteers to raise $78.8 million. The American Heart Association, with approximately the same number of volunteers, raised $50.9 million.

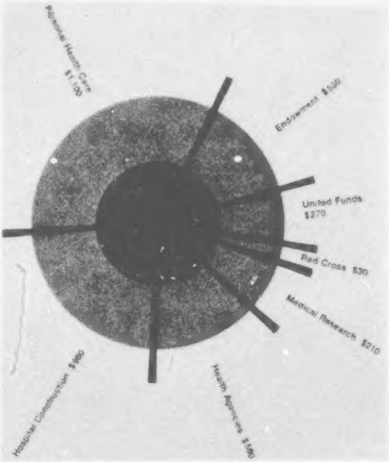
These funds go to support programs of research, public and professional education, and patient services. The National Information Bureau in a recent report estimated that 15 percent of the total revenue of these agencies goes to research. In the agencies concerned with major diseases, however, research allocations range from 18 to 30 percent.

An important function of such agencies is advocacy. Increased expenditures by government in recent years for health care and research can be attributed in part to the efficacy of these agencies in their advocate roles.

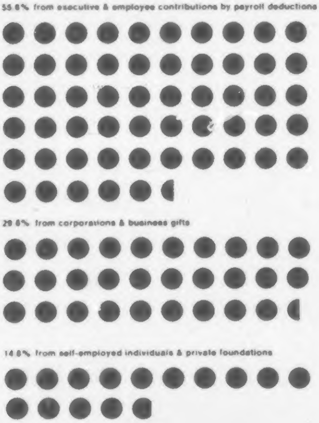
Philanthropy for Health About four percent of health care expenditures comes from philanthropic sources. The largest share of contributed funds goes for personal health care, paying an estimated one and one-half percent of these costs. This percentage remains relatively static as government health programs provide more and more for the needy, formerly recipients of most such contributions. Contributions for personal health care during 1972 are estimated at $1.1 billion.

As stated previously, contributions to the 21 leading health agencies increased by an average 12.8 percent in 1972. A recent National Information Bureau report on

Philanthropy to Health
(in millions)



United Way Income by Source



34 agencies shows a better-than-12-percent increase in support revenue, from $394.3 million in 1971 to $442.3 million in 1973. Not included are thousands of nonaffiliated local or church-related (not church-supported) agencies for which statistics are not available. It is estimated that voluntary contributions to all health agencies in the United States total $580 million.

Reported 1972 income for local United Funds and Community Chests is $914.6 million. In the past, about 26 percent of these funds was distributed to health agencies. Such distributions plus health's share of planning and other costs should total $270 million for 1972.

A large share of the American Red Cross income comes from United Fund distributions, but the agency raised about $59 million on its own last year. It is estimated that $30 million of this was spent for health purposes.

Recent studies show that about 25 to 30 percent of construction funds for voluntary health facilities comes from contributions. Nonvoluntary hospitals receive some of their construction funds from philanthropy, although the percentage is much less. Giving for health construction during 1972 is estimated at $960 million, with another $530 million given to endowment funds.

Health research expenditures during 1972 included about $210 million from philanthropic sources. Total giving for health and hospitals for 1972 equaled $3.68 billion, an increase of 10.2 percent over last year.

Social Welfare

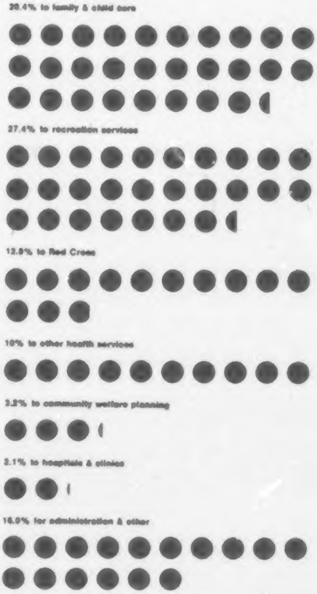
The availability of social services is essential to the fabric of community life, and philanthropy has long recognized this fact through support of organizations and agencies that work toward helping the needy and providing outlets for a better quality of life for all. It would be a rare person who has not participated in or been touched by one of the many organizations in this field, which includes boy and girl scouts, summer camps, Ys and neighborhood centers, the Salvation Army, legal aid societies, day-care centers, children's services and homes for unwed mothers, foster care, family planning, the Urban League, travelers aid, USOs, and many others. Where a problem exists, an agency is there to work toward its solution.

United Ways play a significant role in the financing of many of the social welfare agencies, supplying about one third of total private giving in this area through United Way campaigns. In 1972, 2,224 United Way campaigns across the United States and Canada raised a total of $915 million, a 5.7 percent increase over 1971; of this, $858 million was subscribed in the U.S. Almost 30 percent comes from corporations, 56 percent from employee and executive gifts, the balance from foundations and the public at large. About two thirds of the total raised go for social welfare purposes, with the remaining third allocated to hospitals, clinics, other health services, and the American Red Cross.

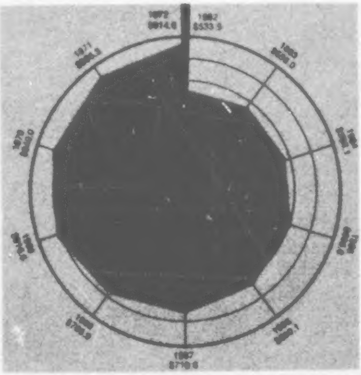
Another important role played by United Way organizations concerns the quality of community life. In 1972, there was renewed emphasis on providing more effective services in communities regardless of whether or not such services were financed by United Way, and increasing responsibility was taken by United Way leadership for evaluating health and welfare service delivery programs, both voluntary and governmental. A closer working relationship with government was developed during the year and is now a vital part of the United Way program.

Further progress was charted in setting priorities and redirecting allocations so that those service programs that were most relevant to community needs would receive a larger share of funds raised. Agency programs were evaluated, and tools directed toward measuring effectiveness of services were developed by United Way of America and used in more communities than ever be-

United Way Allocations by Fields of Service



Records of Federated Campaigns Since 1962 in the U.S. and Canada



	1962	63	64	65	66	67	68	69	70	71	72
NO. OF CAMPAIGNS	2,205	2,208	2,232	2,217	2,250	2,272	2,268	2,255	2,241	2,238	2,224

Source: United Way of America

fore. Across the nation, United Way organizations adopted a set of "Standards of Excellence for Local Communities," basic guidelines against which they can measure themselves.

Any discussion of social welfare agencies must also single out the volunteers, for the strength of such agencies, and of the United Way, lies in their volunteers. Working through these organizations, volunteers add immeasurably to the good work accomplished.

Social welfare agencies are also supported by various Catholic, Jewish, and Protestant councils, and all available reports for 1972 indicate an increase in contributions over 1971. Provisional estimates from the Council of Jewish Federations and Welfare Funds of amounts raised in central Jewish community campaigns show $360 million in 1971, the last year for which figures are available, 20 percent over the 1970 total of $299 million.

For 1972, AAFRC estimates that social welfare causes received $1.61 billion, an increase of 5.9 percent over 1971.

Arts and Humanities

The year 1972 was one of continued expansion for cultural activities, with still greater attendance at museums, longer seasons and more subscribers for symphony orchestras, a widening audience for opera, theater, and dance. With success, cost of operations have continued up, and problems of funding remain serious. It is paradoxical that as the arts assume an increasingly important place in the lives of more and more people, they are pricing themselves out of the market. Unlike their European counterparts, which are financed by government, the arts in this country are private nonprofit organizations that depend on individuals, foundations, and corporations, as well as federal, state, and municipal governments to bridge the gap between costs and income.

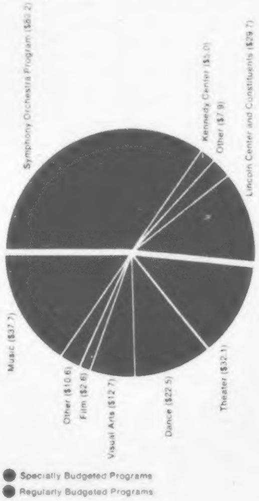
Giving Trends Traditionally, the arts have been supported by the private patron, and this continues to be true with individuals accounting for up to 75 percent of total philanthropy to the arts. One has only to walk through a museum, noting how often on the descriptive plaques the painting, sculpture, costume, silver, or early piece of furniture is the gift of an individual, or to read the list of patrons in the program of an opera society or a symphonic association, to realize the importance of the individual donor.

This is true not only in terms of gifts of property, financial contributions, and bequests, but also in terms of time. In all areas of the arts, the volunteer plays an important role.

Foundations It is estimated that foundations may account for some 15 percent of total contributions to the arts and humanities. Some foundations restrict their giving to these fields, but for the majority, cultural activities are one of many support areas. Largest of such donors is the Ford Foundation, which since 1957 has contributed more than $250 million to the arts. Distribution of grants in fiscal years 1957-72 are shown in the chart. Ford Foundation grants currently average around $17 to $20 million a year, about 10 percent of the foundation's budget.

Corporations Corporations are showing increased attention to support of the arts, in part because of the efforts of The Business Committee for the Arts, formed in 1967. With present membership of 112 leading businessmen from communities throughout the nation, the BCA works to spur financial support, publicity, and business expertise for the arts. From $22 million in 1965, corporate philanthropic support for the arts has increased to approximately $70 million for 1972, according to BCA estimates. The 1972 figure is an increase of 24 percent over 1970, the same percentage increase as in 1970 over 1968. An amount at least equal to this $70 million is contributed in the form of written-off business expenses, such as giving free exhibition space, publicity,

Ford Foundation Grants for the Arts 1957-72 (in millions)



or advertising. Outdoor music or drama festivals sponsored by business are becoming more common, as is corporate sponsorship of programs for educational television, which brings the artist's vision into the home and reaches many who otherwise could not participate.

Related to this growing awareness of the need for support of the arts may be the increasing number of corporations which have art collections. Corporations were about equal to museums in their purchases of art in 1972, according to Fidelity World Arts Inc. Each accounted for more than 20 percent of the more than $100 million spent by Americans on original art, and it was estimated that one in five companies currently have art collections or commission art.

One additional trend in the corporate area is the increasing support of the arts by business through volunteer counseling by management in areas such as proper business techniques, and through lending management people to work with arts organizations. In some cases, a man or woman may actually work full time with an arts organization, with the corporation paying his or her regular salary; in others, a person may be released for a specific project only. One accounting firm offers free accounting and financial services to fledgling arts organizations. In New York, a practicing lawyer may donate his services to indigent artists or art groups in matters of law pertaining to the arts through Voluntary Lawyers for the Arts; no fee is collected, but once the recipient is financially able to hire a lawyer on his own, VLA assistance is terminated.

Federal Government Government support of the arts and humanities gained direction with the establishment in 1965 of the National Foundation on the Arts and Humanities, made up of two basically grant-making agencies—the National Endowment for the Arts and the National Endowment for the Humanities—an advisory National Council for each, and a Federal Council, pri-

Large Gifts to the Arts—1972

Donor / Amount / Recipient

Carnegie Corporation of New York—$8 million
Cooper-Hewitt Museum

Joseph H. Hirshhorn—$7 million
Smithsonian Institution

Mrs. DeWitt Wallace—$5 million
Juilliard School

Nine Chicago business firms—$2.25 million
Field Museum of Natural History

Mrs. Umberto de Martini—$2 million
Metropolitan Museum of Art

Rockefeller Foundation—$2 million
Six theater organizations

Haas Community Fund—$1.477 million
Walnut Street Theater Corporation

Sarah Mellon Scaife Foundation—$1.335 million
Carnegie Institute

Richard King Mellon Foundation—$1.25 million
Pittsburgh Symphony Society

Ford Foundation—$1 million each
Ballet Theater Foundation
Lyric Opera of Chicago

A. W. Mellon Educational and Charitable Trust—$1 million
Pittsburgh Symphony Society

Edward John Noble Foundation—$1 million
Museum of Modern Art

Spencer Foundation—$1 million
Nelson Gallery of Art

Woods Charitable Fund—$1 million
Art Institute of Chicago

BEST COPY AVAILABLE

marily to coordinate activities and programs of the two endowments and of other federal agencies.

The appropriation for its first fiscal year for the National Endowment for the Arts was $2.5 million. For fiscal 1971, the total program equaled $17,590,000, of which $2.5 million was in private donations; for 1972, $33,250,000, and for 1973, $41,700,000, including private donations of $3.5 million each year. For the coming year, the Administration has requested $72.5 million, $7.5 million of which would be matched in private donations for a total of $80 million. The matching provision for a portion of the Endowment's funds enables it to work in partnership with private and other nonfederal sources for funding for the arts, and it generates $3 to $4 from outside sources for each dollar expended. During fiscal 1972, $3.5 million in private donations--representing approximately 950 donations ranging from $1 to more than $100,000--was matched by the Endowment; the doubled amount was then made available to the grantee, again on a matching basis, for almost all Endowment grants fund only half the total budget of a project.

Major goals of the National Endowment for the Arts are to make the arts more widely available to millions of Americans, to preserve our rich cultural heritage for present and future generations, to strengthen cultural organizations, and to encourage the creative development of our nation's finest talent.

The National Endowment for the Humanities during fiscal year 1972 funded 1,110 grants totaling $31.7 million in all 50 states. These figures represent a 70 percent increase in the number of grants and a 122 percent increase in dollar amounts over fiscal year 1971, when 653 grants totaling $14.2 million were awarded. Gifts ranging from $5.00 to $325,000 from 680 private donors for a total of $3,568,242 more than equaled the Endowment's $3.5 million in matching funds. For fiscal 1973, its appropriation is $34.5 million, plus $3.5 million in matching funds. For the coming year, the Administration has re-

National Endowment for the Arts, Funds Obligated, Fiscal Year 1972 ($1,000,000 or more)

Music	$9,745,797
Federal-State Partnership Program	5,478,020
Museums	4,149,273
Theater	2,696,000
Dance	2,267,741
Public Media	1,879,877
Education	1,750,736
Expansion Arts	1,137,086

quested $72.5 million, which includes $7.5 million for matching. Among the activities funded by the Endowment are experimental programs of informal adult education in the humanities at state level, a program to encourage active interest and creative involvement in the humanities among students and young persons, programs of basic research and editing, fellowships, and work in the humanities at the institutional level.

State Arts Councils The growing energy and strength of the state arts councils and their accomplishments on behalf of the arts at the local level are among the most exciting aspects of the nation's cultural scene, according to the National Endowment for the Arts. Encouraged by grants from the Arts Endowment, which have grown from $36,000 for each state in fiscal 1970 to $101,320 each in fiscal 1972, state arts councils exist today in all 50 states and the five special jurisdictions. State appropriations to these groups have also shot up; excluding New York, appropriations grew from $1.9 million in 1966 to $7.6 million in 1972. For New York, the 1966 figure was $765,895, in 1972 $14,423,000. It is expected that state legislative appropriations will remain at this level for 1973. Private grants to the arts councils have also increased.

Community Agencies Still another element in the arts picture are the thousand or so community arts agencies in the United States--nonprofit organizations representing more than one art form through service to cultural groups in their community. A 1972 survey resulted in a directory of 254 of these agencies, assembled and printed by the Associated Councils of the Arts. Included in the group were 18 united arts fund-raising councils; these were formed to serve as "united funds" for the arts. ACA plans an in-depth study of these agencies later this year, which will be fully reported in the *Giving USA Bulletin* when completed.

Organizations Related to Philanthropy

American Alumni Council
One Dupont Circle, N.W.
Washington, D.C. 20036

American College Public Relations Assn.
One Dupont Circle, N.W.
Washington, D.C. 20036

American Council on Education
One Dupont Circle, N.W.
Washington, D.C. 20036

American Hospital Association
840 North Lake Shore Drive
Chicago, Ill. 60611

American Symphony Orchestra League
P.O. Box 66
Vienna, Va. 22180

Associated Councils of the Arts
1564 Broadway
New York, N.Y. 10036

Association of American Colleges
1818 R Street, N.W.
Washington, D.C. 20009

Business Committee for the Arts, Inc.
1270 Avenue of the Americas
New York, N.Y. 10020

Committee for Economic Development
477 Madison Avenue
New York, N.Y. 10022

Contributors Information Bureau
225 Park Avenue South
New York, N.Y. 10017

Council for Financial Aid to Education, Inc.
680 Fifth Avenue
New York, N.Y. 10019

Council of Better Business Bureaus, Inc.
1150 17th Street
Washington, D.C. 20036

Council on Foundations, Inc.
888 Seventh Avenue
New York, N.Y. 10019

Council of Jewish Federations and Welfare Funds
315 Park Avenue South
New York, N.Y. 10010

Council of State Governments
36 West 44th Street
New York, N.Y. 10036

Federation of Protestant Welfare Agencies
281 Fourth Avenue
New York, N.Y. 10010

Foundation Center
888 Seventh Avenue
New York, N.Y. 10019

Independent College Funds of America, Inc.
5108 Empire State Building
New York, N.Y. 10001

National Assembly for Social Policy and
Development, Inc.
345 East 46th Street
New York, N.Y. 10017

National Association for Hospital Development
Box 5814
Tucson, Ariz. 85703

National Association of Independent Schools, Inc.
4 Liberty Square
Boston, Mass. 02184

National Catholic Development Conference
130 East 40th Street
New York, N.Y. 10016

National Catholic Education Association
One Dupont Circle, N.W.
Washington, D.C. 20036

National Catholic Stewardship Council
P.O. Box 733
Kansas City, Missouri 64141

National Catholic Welfare Conference
1312 Massachusetts Avenue, N.W.
Washington, D.C. 20005

National Center for Voluntary Action
1735 I Street, N.W.
Washington, D.C. 20006

National Council of Churches
475 Riverside Drive
New York, N.Y. 10027

National Council on Philanthropy
680 Fifth Avenue
New York, N.Y. 10019

National Health Council
1740 Broadway
New York, N.Y. 10019

National Information Bureau, Inc.
305 East 45th Street
New York, N.Y. 10017

National Public Relations Council
of Health & Welfare Services, Inc.
815 Second Avenue
New York, N.Y. 10017

National Society of Fund Raisers
130 East 40th Street
New York, N.Y. 10016

Tax Foundation
50 Rockefeller Plaza
New York, N.Y. 10020

The Conference Board
845 Third Avenue
New York, N.Y. 10022

United Way of America
801 North Fairfax Street
Alexandria, Va. 22313

The annual subscription is $12.50 (less than cost) and includes
Giving USA—Annual Report
Giving USA—The Bulletin (11 issues plus specials)
Master Calendar of Meetings

The production of the above publications is partially subsidized by the member firms of the AAFRC as a public service to philanthropy.

Individual copy
1973 Annual Report
$2.00

Senator **Mondale**. We must adjourn now. It is now noon so we will stand adjourned until tomorrow morning.

[Whereupon at 12 noon the subcommittee was recessed to reconvene Tuesday, February 5, 1974, at 9:30 a.m.]

CHILDREN'S CHARITIES, 1974

TUESDAY, FEBRUARY 5, 1974

U.S. SENATE,
SUBCOMMITTEE ON CHILDREN AND YOUTH,
OF THE COMMITTEE ON LABOR AND PUBLIC WELFARE,
Washington, D.C.

The subcommitte met at 9:35 a.m. in room 4232, Dirksen Senate Office Building, Hon. Walter F. Mondale (chairman of the subcommittee) presiding.

Present: Senators Mondale and Hathaway.

Committee staff members present: Ellen Hoffman and A. Sidney Johnson III, professional staff members, and Harvey Katz, consultant.

Senator MONDALE. The Subcommittee on Children and Youth will come to order.

Our first witness this morning is Helen L. O'Rourke, director, philanthropic advisory department of the Council of Better Business Bureaus. She is accompanied by Moylan E. Brown.

STATEMENT OF HELEN L. O'ROURKE, DIRECTOR, PHILANTHROPIC ADVISORY DEPARTMENT, COUNCIL OF BETTER BUSINESS BUREAUS; ACCOMPANIED BY MOYLAN E. BROWN

Mr. O'ROURKE. I am Helen L. O'Rourke, director of the philanthropic advisory department, Council of Better Business Bureaus, Inc.

On behalf of the CBBB, permit me to say I appreciate the opportunity to participate in this hearing and assist you in your study of charitable organizations that benefit children.

I'd like to commence with a brief description of our organization. The council is very much involved in the monitoring of soliciting organizations. The Council of Better Business Bureaus, Inc., came into being on August 1, 1970, as a result of the consolidation of the National Better Business Bureaus, Inc., and the Association of Better Business Bureaus International, Inc. The council combines the functions of its predecessors by: (1) Fostering fair advertising and selling practice in national advertising; (2) coordinating policies, standards, and practices for Better Business Bureaus; (3) providing a national voice for the Better Business Bureau system; and (4) advising the public they should give but, give wisely.

The council is a nonprofit corporation supported by annual dues from its members. Its membership consists of 140 bureaus in the United States, and more than 1,000 national companies.

The council is guided by a board of directors consisting of 36 members and up to 11 at-large members. Representing the Better Business Bureaus is the management committee, consisting of 12 bureau executives, whose functions are, in general, to provide expert advice on policies and operations.

Recognizing the need for factual and readily available information, the philanthropic advisory department of the Council of Better Business Bureaus has developed a program to provide the public, Better Business Bureaus, chambers of commerce, corporations, media, and the Government—at all levels—with factual reports on national and international soliciting organizations. Included in these reports is information about the organization structure, activities, fundraising methods, financial statement, and tax status.

Also, the philanthropic advisory department of the Council of Better Business Bureaus provides advisory and consulting services to soliciting organization regarding fundraising ethics, operations, and compliance with established standards.

All of the services of the philanthropic advisory department of the Council of Better Business Bureaus are provided at no cost to the individual or organization requesting information, reports, or assistance.

During 1973, the philanthropic advisory department of the Council of Better Business Bureaus responded to over 10,000 requests for reports on national and international soliciting organizations. In January 1973, the philanthropic advisory department of the Council of Better Business Bureaus received 600 telephone and mail inquiries. The month of December 1973, the number of inquiries jumped to over 2,500. Last week we received approximately 1,300 public inquiries. This does not count the corporate and media inquiries. I think this is a terrific jump. For your information, individuals, through direct gifts or charitable bequests, contributed 86.6 percent of the over $22 billion given in 1972 for philanthropic programs.

The 140 better business bureaus are provided with the written reports developed by the Philanthropic Advisory Department of the Council of Better Business Bureaus and they also maintain information and reports on local soliciting organizations.

The Philanthropic Advisory Department not only provides local better business bureaus with reports and other information on national and international soliciting organizations, but also provides them with assistance, training, and guidance in their investigation and report procedure.

In turn, the local better business bureaus provide the Philanthropic Advisory Department with information about the local activities of national and international soliciting organizations that are active in their service area.

One of the areas of greatest public concern is the organizations which offer child welfare services through "sponsorship" plans, or "adoptions."

I would like to say here that the council is only using this as an example. We are very objective on all these reports, and this is just an example.

Under this plan, a sponsor usually will adopt a child and remit an average of $12 a month to the organization for support of the child. In return, the sponsor will receive a picture of the child, a case history, personal letters, and followup information. The public usually expresses its concern about these type of organizations by asking:

(a) Is this organization worthwhile and deserving of support?
(b) Does my money really go to the child I adopt?
(c) Is there a child who receives my money?
(d) How much of my money really goes to the child?
(e) Is there really such a child?

The council believes there are an infinite variety of factors that must be considered before an organization's effectiveness and competency may be assessed.

The causes and programs espoused by soliciting organizations go from one end of the spectrum to the other. What is a worthwhile cause for one person will be meaningles to another. The council believes that potential donors should have sufficient facts at hand so that they may individually evaluate the appeals they receive for funds. Our reports are written to provide a broad overview of an organization's basic structure, background, fundraising methods, programs, activities, and management.

The first step in a CBBB investigation is to send a questionnaire to the organization. I have given this information to the committee.

[The information referred to and subsequently supplied follows:]

BEST COPY AVAILABLE

COUNCIL OF BETTER BUSINESS BUREAUS, INC.

INTERNATIONAL ASSEMBLY OF BETTER BUSINESS BUREAUS

1150 17th ST. N. W. WASHINGTON, D. C. 20036 (202) 467-5200

Please answer the following questions. Attach separate sheets and exhibits as necessary.

ORGANIZATIONAL STRUCTURE

Name and address of organization. Former name, if any.

____

____

____

Please give brief history of organization.

____

____

____

If incorporated, give date and State; profit or non-profit. Please enclose copy of certificate of incorporation. If chartered outside of U.S.A., please give facts.

____

If not incorporated, describe form of organization.

____

Is it local, regional, national, or international in scope?

____

Attach list of branch offices, chapters, and names and addresses of any affiliated organizations.

Does parent organization receive audits from and control the policies of branches, chapters or affiliates? If so explain.

____

____

PURPOSE OF THE ORGANIZATION

State purposes briefly.

____

____

____

ACTIVITIES OF THE ORGANIZATION

State principal activities

____

____

If there are other groups in the same field, how does your program function in order to avoid duplication?

____

____

____

If a health or welfare organization, who are the beneficiaries? Explain briefly conditions of eligibility.

____

____

If a service organization, outline specific services rendered and to whom.

____

____

Is your organization concerned with national, state or local legislation?

____

BEST COPY AVAILABLE

If so, is it registered as a lobbying organization as required by law? Include name of lobbyist.

If concerned with legislation, along with other activities, what part of your total income goes into legislative areas?

TAX STATUS

Have contributions to the organization been declared exempt for income tax purposes by Treasury Department? If so, please attach photostatic copy of latest ruling.

OFFICERS, DIRECTORS AND STAFF

Please attach names, titles and business or professional affiliations of officers and directors or trustees, members of executive committee and staff.

How often were meetings of the Board of Directors and Executive Committee held last year and what was the average attendance at the meetings.

State if any of the officers or directors receive compensation and if so, which ones.

State number of paid employees and number of volunteer workers. Do volunteers receive expense allowances?

FUND-RAISING

What is the type and the financial goal of current solicitations?

What approach is used -- mail, telephone, personal visit, telethons, subscriptions, unordered merchandise? Other?

Please give details. How often are such appeals made? Please enclose copies of solicitation literature.

Is outside paid individual or firm employed for any part of your fund-raising program? If so, give name and address, and details of agreement between parties, and enclose a copy of the contract.

If memberships are sought, state types of membership, costs to and privileges accorded members. What is present total membership in each category?

SOURCE OF FUNDS

From what sources are funds obtained (corporations, general public, foundations, Community Chests, other federated campaigns, Federal grants, etc.) and indicate approximate percentage of income derived from each source.

Have funds always been obtained from this source(s)? If not, give details.

PLEASE ENCLOSE COPY OF LAST AUDITED STATEMENT; COPY OF LAST ANNUAL REPORT; AND COPIES OF BUDGET FOR CURRENT FISCAL YEAR AND NEXT FISCAL YEAR.

Date Signature Title

Ms. O'ROURKE. CBBB believes in promoting self-regulation. We always request the subject organization's cooperation in our efforts to provide inquirers with full and accurate information. I would estimate that approximately 90 percent of the organizations contacted by CBBB respond in some fashion to our request for information.

At the time an organization is sent a questionnaire, the Council contacts the local Better Business Bureau serving the area where the organization is located and requests their assistance in developing information. If we know that an organization maintains its administrative offices in one city, and operates a program in another city, we contact both areas for information.

The IRS and other government agencies having jurisdiction at the Federal and State level are also contacted. Not all soliciting organizations provide us with the requested financial information in the detail needed to evaluate dollars and programs. By evaluating the information received from these various sources the Council of Better Business Bureaus is better able to determine the scope of the actual programs and services. Also, it is posible to determine the amount of fund actually spent on programs compared to funds received from appeals.

Program verification is a particular problem area. For example: Appeals for American Indian Reservation and Appalachia Communities. In these instances, we have worked through existing government agencies. In this connection, the Bureau of Indian Affairs has been particularly helpful in cooperating with us and in assisting us in developing information on several Indian, or alleged Indian, organizations.

The problem with groups operating overseas is almost impossible to resolve at this time. One particular problem frequently occurs when people see in solicitation material that an organization is "Registered with the U.S. Government Advisory Committee on Voluntary Foreign Aid."

People frequently assume that an organization has passed some sort of "test" of its reliability and that such an organization is "approved" by the government. One of our jobs has been to explain to people that registration with AID does mean that an organization has met certain criteria, but not necessrarily that it has been approved as a government-accepted/approved organization.

Any child adoption organization operating overseas, or with extensive overseas programs, is almost impossible to check. There are only a few Better Business Bureaus outside the United States, and they are not where the heaviest concentration of children's groups operate: Viet Nam, Hong Kong, Korea, South America.

The Council has been able to contact the Hong Kong Social Services Department on one solicitation which originated from a leper colony there, but our avenues of information on other types of programs are virtually nonexistent. The Council finds itself in the position of being one of the foremost authorities on soliciting organizations, with no place to go for the information it needs to verify or countermand the claims made by soliciting organizations regarding services in other countries.

An additional problem is created when the soliciting organization is a religious, or religious-affiliated one. Most existing State and local regulatory agencies have traditionally exempted religious groups from their registration and reporting requirements. It is only since 1969 that religious organizations have been required to file Information Returns (990) with the IRS.

The Council of Better Business Bureaus does not comment on the validity of any particular religion. However, when any church or religious group enters the marketplace or solicits charitable contributions from the public at large, both activities fall within our traditional reporting responsibilities. In either situation, the Council never comment on the religion itself.

Another major educational problem faced by the Council of Better Business Bureaus concerns the public belief that, once an organization has been awarded a tax-exempt ruling by the Internal Revenue Service, its legitimacy can be relied upon. The IRS, of course, is not equipped to audit all tax-exempt organizations soliciting funds from the public, on even a once every 10 year schedule. The public, however, persists in believing that the Internal Revenue has certified the continuing reliability of an organization by awarding it a tax-exempt status.

The IRS is responsible for making the Form 990 filed by a tax-exempt organization available to the public. However, many of these returns are so out of date by the time they become available to the public and the Council that they are of little value. Frequently, new organizations will lose money, or have extremely small incomes during their first years, and have second and third years that are remarkably successful.

For example, CBBB has, in its files, information on an organization that took in approximately $20,000 its first year of operation, and took in well over $1 million its second. So that when the first year form 990 becomes available to the public, occasionally 1 or 2 years behind the time it was filed, it is inadequate for the needs of the inquirer.

As another example, CBBB recently requested the returns of three tax-exempt organizations. The latest available information here in Washington was, for one, a return filed in 1968, for another, filed in 1969, and for another, in 1957.

In connection with child adoption organizations, people are obviously concerned as to whether the child exists in the first place, and

I have attempted to detail some of the problems encountered by CBBB in our attempts to verify that fact.

People also want to know that their money is going to the child. Very often, an inquirer will become irate when told that only $8 or $10 of their $12 contribution goes to the child, with the rest usually allocated to contingency funds or to administrative or fundraising costs of the organization. The public has not accepted the fact that a soliciting organization is not really any different from a profitmaking business firm. It has certain fixed costs of doing business and running its program.

One of the problems is that some of the soliciting organizations seeking funds to aid children use a picture of an unusually dirty, plaintive looking child, who "needs love" or is reaching out for help. Often the advertising attempts to depict the immediacy of the child's needs through compelling illustration or "gimmicks", such as asking Mrs. Martin for help for Elizabeth Martin, whose picture is attached to the appeal.

The Council of Better Business Bureaus, together with almost 50 representatives of fundraising organizations, media and donor groups, has worked for the past 6 months to develop equitable and effective "Standards for Charitable Solicitations."

CBBB believes any organization which solicits funds from the public should provide a full accounting of their activities and financial standing to potential or actual donors. The first part of the BBB's standards will delineate those areas which we believe to be the most important for consideration in determining the relative effectiveness and efficiency of an organization. These standards relate to the structure, finances and fundraising methods.

The second part of CBBB's Standards is concerned with the accuracy and completeness of a soliciting organization's advertising and informational material. Increased public skepticism directed toward advertising has not skipped the promotion/publicity, educational campaigns conducted by soliciting organizations.

In conclusion, let me say that I believe there are several areas where attention could be directed with an eye toward resolving some of the more outstanding problems in this investigation/reporting area.

First, it is obvious that the IRS is not staffed to do the job they are being asked to do. A nonprofit organization should be treated separately from a profitmaking firm and accordingly, a separate review/monitoring section should be developed to handle this problem.

A greater staff could allow for periodic review of an organization, its reporting to IRS, and its general operations. Attention should be directed particularly hard at an organization during the first years of its operations, and on a regular basis thereafter.

Second, it might be possible for different agencies, notably AID, to make greater use of American personnel already overseas. It should be possible for each organization requesting acceptance from AID to be fairly thoroughly investigated, including its overseas operations. Again, reviews should be conducted on a regular basis.

Finally, I would like to bring to the attention of the committee a bill, H.R. 11991, which was introduced December 17, 1973 by Congressman Lionel Van Deerlin, of California. This bill would require the soliciting organization, upon request, to furnish complete and accurate financial and program disclosure about it and the person making the solicitation.

The bill was drafted with the help of a number of interested organizations; including, representatives of the National Health and Welfare Agencies, American Association of Fundraising Counsel, National Direct Mail Marketing Association, Catholic Development Conference—I have not stated it but this includes the Catholic, Protestant, and Jewish groups—United Way, National Assembly for Social Policy and Development and I was asked to participate as an objective consultant.

Senator MONDALE. Thank you very much for your most useful presentation coming from an organization which I think has done this very meaningful work in this field.

I understand you have a study, and I wonder if you could submit that to us for the record so we might have that in the record.

Also, would you submit to us the proposed standards that you have developed which you may have for reference.

Ms. O'ROURKE. Could Mr. Brown speak just a few minutes about the BBB's studies?

Senator MONDALE. Yes.

Mr. BROWN. Mr. Chairman, yes, the standards are now in the final draft stage, and we will submit to the committee a copy of the standards.

As Ms. O'Rourke has pointed out, there are two parts, the first part having to do with the structure of fundraising techniques and programs and activities of soliciting organizations; the second part having to do with the advertising and informational material.

Ths is not an unusual function for the Council of Better Business Bureaus. We established minimum standards for many industry areas. We will make this available to the committee.

Senator MONDALE. I would ask the staff to review various documents of the Better Business Bureaus in this field, and perhaps put selective documents in the record.

[The information referred to follows:]

BEST COPY AVAILABLE

A Solicitations Review Newsletter **IN-SIGHT**

Council
of
Better
Business
Bureaus, Inc.,
TRADE PRACTICES DEPARTMENT

Vol. II No. 4 June - July 1973

MAIL FRAUD

One of the oldest consumer protection laws on the books is the federal Criminal Fraud Statute (18 USC 1341) adopted in 1874. Under this law, if the U.S. mails are used to promote a fraudulent scheme, the promoters "shall be fined not more than $1,000 or imprisoned not more than five years, or both."

The U.S. Postal Inspection Service is responsible for enforcing this law. The postal inspectors in charge of investigating possible mail fraud need the cooperation of donors or potential donors in gathering evidence in cases where promoters for allegedly non-profit, charitable groups have knowingly made false claims. If an investigation reveals probable fraud, the evidence is turned over to U.S. prosecutors for submission to a Federal grand jury.

The best defense against unscrupulous promoters and illegal schemes is the informed consumer. If you think there is possible mail fraud in a solicitation you have received:

1. Hold all letters, including envelopes and other evidence related to the questionable schemes;
2. See if your neighbors or business associates have also received similar solicitation material;
3. Bring such information to the attention of a postal inspector in your area by contacting him directly or through your Postmaster;
4. Bring the complaint to the attention of your local Better Business Bureau or Chamber of Commerce.

SCHEMES:..

There are many different types of schemes which come to the attention of Postal Inspectors. These include:

Numbers Rackets and Lucky Charms: These promise good fortune and blessings through donations to psuedo-religious promoters. These schemes promise great happenings and blessings through the use of the so-called "lucky" or "blessed" numbers which are provided in return for a "donation" through the mails. They are usually perpetrated on the uneducated, superstitious and border-line poverty people who can least afford the loss.

"Spanish Swindle": This is one of history's oldest frauds and reappears from time to time. Potential victims appear to be selected from common mailing lists containing names of prominent Americans, such as the international "Who's Who". Addressees are approached as having been "recommended by a very good friend as a trustworthy person". Letters are written to chosen people and relate that a respectable Mexican citizen is being held unjustly by Mexican authorities. The captive claims to be a wealthy person and beseeches the concerned American to provide financial aid to obtain his release. Those responding to the first letter receive a follow-up letter requesting that the American establish a time and place for the exchange of the money.

Classified Directories: Solicitations disguised as invoices are frequently mailed to businessmen around the country. The invoices are for paid listings in a directory to be published at a future date and infer that the publication is well-known or that the business has previously purchased a classified listing in the directory. This type of directory is usually worthless or non-existent.

The directory racket, like most fraudulent promotions aimed at business, works because of carelessness. Postal inspectors have found directory schemes prosper if one company in twenty can be tricked into thinking the invoice is for services to which they have previously subscribed or which will be beneficial to them.

Postal regulations relating to the mailing of solicitations in the guise of bills or statements of account require the following disclaimer: "This is a solicitation. You are under no obligation to pay unless you accept this offer." The invoices often contain the required statement, but it is frequently inconspicuous on the statement. We advise that businessmen alert their bill paying personnel.

BEST COPY AVAILABLE

A Solicitations Review Newsletter **IN-SIGHT**

**Council
of
Better
Business
Bureaus, Inc.,**
TRADE PRACTICES DEPARTMENT

Vol. II No. 5

August-September, 1973

GIVING IN 1972

Since 1956, the American Association of Fund-Raising Counsel, Inc. (AAFRC), an organization of 30 professional fund-raising counseling firms, has published GIVING USA. GIVING USA is an annual compilation of facts and trends on American philanthropy based on the most current information available from private and government sources. This annual report and its guidelines have earned the reputation of being the most reliable single source in the field today. GIVING USA helps to provide philanthropy with the necessary facts and figures to support its cause. (Copies are available at $2.00 each from AAFRC, 500 Fifth Avenue, New York, New York 10036)

Mr. John J. Schwartz, President of AAFRC, reports in GIVING USA that in 1972 Americans gave $22.68 billion to an estimated 513,000 non-profit institutions and agencies, an increase of $1.4 billion over 1971. In addition, more than 60 million men, women and young adults volunteered time and effort to help carry out the programs of these non-profit organizations.

Individuals, through direct gifts or charitable bequests, contributed 86.6% of money given. 1972 giving breaks down as follows:

AGENCY GROUPS	NUMBER
Religion	420,000
Health	50,600
Education	4,500
Welfare	30,000
Civic & Cultural	8,000
Total	513,100

RECIPIENT AGENCIES	(IN BILLIONS)	(PERCENT)
Religion	$ 9.75	43.0
Education	3.57	15.7 (2/3 went to institutions of higher education)
Social Welfare	$ 1.61	7.1
Health	3.68	16.2
Civic & Cultural	1.54	6.8
Foundations & Other	2.53	11.2
	$22.68	100.00

Council of Better Business Bureaus, Inc., 1150 17th Street, N.W., Washington, D.C. 20036, Telephone 202-467-5200

SOURCES OF FUNDS	(IN BILLIONS)	(PERCENT)
Individuals	$16.91	74.6
Charitable Bequests	2.73	12.0
Foundations	2.20	9.7
Business Corporations	.84	3.7
	$22.68	100.0

This year, GIVING USA included the Compilation of State Laws Regulating the Solicitation of Funds for Charitable Purposes (as of February 26, 1973), prepared by Helen O'Rourke of the Council of Better Business Bureaus and John O'Connor, representing the National Health Agencies. This compilation was originally published by the CBBB and copies are available from the Council at 25¢ each.

A Solicitations Review Newsletter **IN-SIGHT**
Council of Better Business Bureaus, Inc.,
TRADE PRACTICES DEPARTMENT
Vol. II No. 6
October - November, 1973

Model State Law Regulating Charitable Solicitations

For the past several months, the Solicitations Review Section of the CBBB has been an active part of the Ad Hoc Committee formed in January, 1973 to review state legislation regulating the solicitation of funds for charitable purposes. The Committee is composed of representatives of concerned organizations in the field of philanthropy.

In October, the Committee presented a proposed model state law to the Coalition for the Public Good, an organization formed by national voluntary organizations to educate the American public about the importance of voluntary services. The Coalition will review the model law and assist the Committee in publicizing and distributing it.

Recognizing that any state law must protect both the contributing public and the regulated organizations, the Ad Hoc Committee reported that its proposed model law would have the following objectives:

1. Prevent the contributing public from being victimized by unethical organizations and individuals.

2. Keep the contributing public fully informed about the programs, purposes, solicitation methods, solicitation and administrative costs of organizations and individuals seeking charitable contributions from the general public.

3. Insure that legislation does not contain capricious, arbitrary, unreasonable, or punitive restrictions upon the activities and programs of accredited voluntary health agencies, reputable professional fund-raising counsel and professional solicitors.

4. Enable a state regulatory agency to require full disclosure of programs, methods of solicitation, solicitation and administration costs of all individuals and organizations soliciting contributions in the state; and empower it to temporarily or permanently prevent public solicitations in the state by any organization or individual not complying with the registration and reporting requirements contained in a state law.

5. Create uniform laws in this area, thereby substantially reducing the amount of time and expense spent in the enforcement of and compliance with already existing laws. Reporting and registration requirements vary considerably in different states and local communities.

The Council will continue working with this Ad Hoc Committee in its efforts to promote equitable but effective regulation. Further developments in this area will be reported in future issues.

BEST COPY AVAILABLE

Senator MONDALE. The Better Business Bureau organization that you head holds itself out, does it not, as at least trying to be available to prospective contributors so that they might call your office and say, "This is charity *X* that I have received a letter about, or someone came to my door in reference to this charity *X*, and I want to know if this charity is honest?" Is that the sort of question you get?

Ms. O'ROURKE. I received a call yesterday from a fraternity. They had been asked to help with a national charity. The first question they asked: "Is it legitimate?"

What is legitimate? When you start talking about that term? I told them it had a tax-exempt status and gave them a verbal report. We have files on over 5,000 organizations. The most active report information we have up here (pointing to her head), so we can tell inquirers immediately what we have from IRS or other sources.

Corporate people will call and ask if they should be on a charitable organization committee. This also happens with congressional inquiries.

Senator MONDALE. Do you have several offices around the country that one can call? Say, if you are in Seattle?

Ms. O'ROURKE. Yes. There are 137 offices.

Senator MONDALE. You try to have this information available.

Ms. O'ROURKE. As soon as I develop a report on a national or international organization, it goes out to the Better Business Bureaus, the corporations, and to the Chambers of Commerce, and then on request it is sent out to anyone who asks for it. We update continuously.

Senator MONDALE. How large is your staff? How thoroughly are you able to really dig into these matters?

Ms. O'ROURKE. At the present time I have a staff of four. I do have a personal background in fundraising myself and public relations, so a lot of these organizations are very familiar and I am on the board of the National Society of Fund Raisers.

Senator MONDALE. When you try to collect your reports I suppose first of all you send letters out to all of the charities.

Ms. O'ROURKE. Yes, and we also give the charitable organizations an opportunity to review its own report. That does not necessarily mean we are going to change the report, but we do give them that opportunity. They may have a new officer, or there may be something in the report that is a drastic mistake.

Senator MONDALE. What happens if a charity does not answer your letter?

Ms. O'ROURKE. Your committee has copies of "In-Sight." Last year it was a bi-monthly newsletter. This year we hope to have it on a monthly basis. We frequently publish a notice in "In-Sight" indicating that the Council has requested but not received pertinent information. Usually within two or three weeks this information comes in.

Mr. **Brown**. I might elaborate there if I may.

Senator **Mondale**. Yes.

Mr. **Brown**. In all cases we make no judgments. We only state the facts in our reports. Any fact not provided by the soliciting organization, given a reasonable length of time, to respond to our questionnaire—which is rather thorough—is so stated either in both the written record and the oral report. Financial information was requested; the organization has not chosen to provide it.

Senator **Mondale**. That is all you can say about it?

Ms. **O'Rourke**. That is enough.

Senator **Mondale**. If you were operating a fraudulent charity, and you received a questionnaire from the Better Business Bureau, the chances are you would throw it away, wouldn't you?

Ms. **O'Rourke**. Well, I might, or send just enough material to keep the Council pacified, and keep promising to send more.

Senator **Mondale**. You mean you would submit just part of the requested information to the Bureau?

Ms. **O'Rourke**. Yes. We have one large national organization right now that spends much of its time telling us how good they are, and telling me that I have all the information I need, but they will not give me their financial information.

Senator **Mondale**. Did they tell you they had given you all the information you needed?

Ms. **O'Rourke**. Yes.

Senator **Mondale**. We hear that in other areas. [Laughter.]

What is your budget annually for your work, approximately, for your office?

Ms. **O'Rourke**. Mine?

Senator **Mondale**. Yes.

Ms. **O'Rourke**. Right now it is part of a division, so it has not been cut out separately. Right now we are in the midst of working up a new budget for 1974.

Senator **Mondale**. Do you know approximately what you spent last year?

Ms. **O'Rourke**. Last year, approximately $35,000.

Senator **Mondale**. I am not complaining. I wish you had 10 times that.

Ms. **O'Rourke**. Me too.

Senator **Mondale**. What happens then, if we have a small organization such as the Better Business Bureau, working very hard trying to help prospective contributors understand when they call whether they can rely on this charity or that, but it is a small organization, and it does not have the funds and the staff and so on to really do the sort of global job of making certain in all cases?

That would be a fair characterization of where we are, would it not be?

Mr. **Brown**. I think we must also recognize, Senator, that the 140 Better Business Bureaus also provide excellent backup for help. We provide them with information. By the same token, the BBB system provides information on what is going on at the local level.

Senator **Mondale**. If you would say it is not sufficient, how would you characterize it?

Mr. **Brown**. That would be very difficult. When you are talking in terms of an industry—and I classify it as that—in 1972 there was collected over $22 billion. This does not include the corporate giving.

We are talking about the grants that they receive from various foundations and government, but, again, how many it would take to do the job adequately would be a guesstimate, an absolute guesstimate, on my part.

Senator **Mondale**. You used some figures of how many inquiries you receive. What was the figure you used?

Ms. **O'Rourke**. Last week, 1,300.

Senator **Mondale**. In the Washington office?

Ms. **O'Rourke**. Yes; in the CBBB Washington office.

Senator **Mondale**. Do you have any national figures on how many inquiries come in?

Ms. **O'Rourke**. No. Local inquiries go direct into the Bureaus. I would not know.

Mr. **Brown**. I think we could provide you with that. 175,000 inquiries were answered by the BBs during 1973.

Senator **Mondale**. It would run into thousands of calls per month nationally, would it not?

Mr. **Brown**. Yes.

Senator **Mondale**. Would that not lead you to the conclusion that there is a great deal of concern and a great deal of unanswered questions in the minds of Americans as they consider what they should contribute to a charity?

Ms. **O'Rourke**. I think there is a great deal of concern and a tremendous need for education. Very frankly, when I was involved in fundraising and public relations, I was not aware of this monitoring need. During the past 2 years with CBBB I have been astounded that we have an uninformed public regarding the ethics and activities of soliciting organizations. I am sure you can walk down the street and ask the first 10 people, and they could not tell you where to go to get this type of information.

Senator **Mondale**. How could they possibly be educated, based upon the information available to them today? I know they can call you, and you are doing your best over there, and it is this one thing going in the country, but——

Ms. **O'Rourke**. If we could disseminate more information to the public it would help.

Senator **Mondale**. Let us just take the average citizen somewhere. He gets a mail solititation for a charity at home, he opens the letter. How can he possibly know how to evaluate the accuracy of what is being told him, or the way the money is being used?

Ms. **O'Rourke**. Our reports are very objective and factual. They are written so the ordinary person can understand them.

Senator **Mondale**. So one thing, if you knew about it, he could call you and if you had the information, you could tell him.

Now, would it not make sense to require the charities to provide this information to the contributor at the time of solicitation?

Ms. **O'Rourke**. I think one problem would be you are going to raise havoc with the fundraising costs. I don't think this is what people are trying to do. Another problem is, I do not think inquirers get an objective answer from the organization itself.

Mr. **Brown**. One of the things that we are suggesting in the proposed standards that we have developed is that this information be made available upon request. That is a great step forward. Also, at the same time, when the soliciting organization using television or radio or any media, must put a statement in the ad or the announcement that for further information a person may contact the organization and give a complete address.

This will help. It will not go all the way as your suggestion, Senator, but it will help a great deal more than now.

Senator **Mondale**. Could we not require them to put certain salient information in the solicitation? That would not cost much. What were your fundraising costs last year. What percentage of the total received goes to help children?

Would that cost anything?

Mr. **Brown**. It would be pretty costly to do that.

Senator **Mondale**. Why?

Mr. **Brown**. Because you are adding more—their appeal message, their brochure or whatever it is on the appeal, on what their programs and activities are, to add this additional information would be costly.

Senator **Mondale**. How much would it cost?

Mr. **Brown**. I have no idea.

Senator **Mondale**. Would it cost anything? I do not think it would cost much of anything.

Mr. **Brown**. It may not cost that much more if it is just a statement of fact.

Senator **Mondale**. This is just one of the things has occurred to me. What percentage of the money raised last year was consumed in fundraising costs? What is your overhead? What percentage of the total actually goes to children?

How much would it cost just to do that?

Ms. O'ROURKE. I still think the people would like an objective third party answering the question rather than the organization itself. A lot of inquiries—public, media, corporate person or foundations do not want to go to the organization itself, they would rather go to a third party.

Senator MONDALE. They can do both.

Ms. O'ROURKE. They can do both. If this Federal legislation goes through it will be required, and of course that would go in as interstate commerce. This would also help me with organizations that tell me there is nothing we can do about stopping the mails; if I am using first class mail, you cannot stop that. They very bluntly tell me that.

New York and North Carolina have very strong language in their laws. Also, other States have laws, but do not enforce them. There is a "model state law" which has been drafted by interested groups. If all the States had strong laws—I think all we would need to do is tighten up the controls we already have. We need an educational program to advise the people how they can obtain information, and where to go to get the information. Two lines in any article just saying you can get a free report from the Council of Better Business Bureaus brings many additional inquiries.

Just one line in the Readers Digest brought us 1,300 inquiries in 1 week. These inquiries come usually from women or older people who start out, "I want to give", and then they sometimes will list 90 organizations, or they say, "I gave to these organizations, are they legitimate?" and they may list 30 or 40.

I think people want to give, but they want to make sure their money is going in the right direction.

Senator MONDALE. We want to make them feel secure in their giving. How can we honestly assure them that this is true?

Ms. O'ROURKE. I have had people writing or calling saying, "Will you give me a list of the best organizations?" Of course, we cannot do that. I write back and say I will send them a listing of the reports we have or say, "Will you send me the organizations you want special reports about. Maybe they would rather give to United Cerebral Palsy if they have a child so afflicted, or they might want to give to the Heart Association if their mother died of a heart attack."

The final decision for giving must be made by the inquirer.

Senator MONDALE. Suppose you get a fraudulent report from somebody. Do you have any way of looking behind it?

Ms. O'ROURKE. Yes. I check IRS. I check the postal authorities. On one group I had a call from the Houston Bureau one afternoon, asking me about a group that was raising money and implying a connection with Merchant Marine of D.C. It had all the earmarks—

everything looked very official, the stationary and everything, but something clicked up here [indicating head] that it was wrong.

After the call, I contacted the postal authorities and IRS. I called the Merchant Marine. They all verified the group was fraudulent and asked me to have all information sent to Postal Authorities.

Two hours later I called the Houston Bureau with my report. They immediately went on the radio and TV and they had alerted all of their members. We sent out an alert on this group to all Bureaus. Within 6 weeks these men were apprehended and were in jail.

Also, we do work very closely with the New York Social Services Department. I call on them very often.

Senator MONDALE. That is one of the best offices in the country.

Ms. O'ROURKE. New York and the North Carolina. Also on a local level, Los Angeles.

Mr. BROWN. As you know, many municipalities have a whole broad spectrum of solicitations ordinances which include even to the point of just registering these organizations when they come into town to do their solicitation.

Senator MONDALE. But if you get a hot charity that is questionable, they will not go to one of those jurisdictions; they will just stay out of them.

Ms. O'ROURKE. That is the problem. In any law, any standards, there are always going to be those that can slip under the line. As soon as direct mail or any type of appeal goes out, I can almost tell within three days of the initial activity. A corporate person calls, or a Bureau calls us, they want an answer right away. Within two or three hours we begin preparing a report for the inquirer.

Senator MONDALE. Do you ever yourself audit the charity's books?

Ms. O'ROURKE. We do check the audits, but we do use the audits of the New York Social Services.

Senator MONDALE. But I am talking about your office. You do not go back and audit the books of a charity?

Ms. O'ROURKE. No, but I can look through statements and judge percentages. As I say, I do have a background in fundraising. I know what some of the costs are or should be.

Senator MONDALE. Thank you very much for your very excellent presentation.

Our next panel of witnesses is from the Asthmatic Children's Foundation, consisting of Dr. M. Murry Peshkin, Dr. Harold Abramson, Lawrence Karnbad and Israel Friedman.

There is a prepared statement here which I assume one of you will present.

We suggested by letter that you might bring counsel with you, and I ask that letter appear in the record.

[The information referred to follows:]

HARRISON A. WILLIAMS, JR., N.J., CHAIRMAN
JENNINGS RANDOLPH, W. VA.
CLAIBORNE PELL, R.I.
EDWARD M. KENNEDY, MASS.
GAYLORD NELSON, WIS.
WALTER F. MONDALE, MINN.
THOMAS F. EAGLETON, MO.
ALAN CRANSTON, CALIF.
HAROLD E. HUGHES, IOWA
WILLIAM D. HATHAWAY, MAINE
JACOB K. JAVITS, N.Y.
PETER H. DOMINICK, COLO.
RICHARD S. SCHWEIKER, PA.
ROBERT TAFT, JR., OHIO
J. GLENN BEALL, JR., MD.
ROBERT T. STAFFORD, VT.

MARIO T. NOTO, STAFF DIRECTOR
ROBERT E. NAGLE, GENERAL COUNSEL

United States Senate
COMMITTEE ON
LABOR AND PUBLIC WELFARE
WASHINGTON, D.C. 20510

January 21, 1974

Murray Peshkin, M.D.
133 East 58th Street
Suite 310
New York, New York 10022

Dear Dr. Peshkin:

As you know, the Senate Subcommittee on Children and Youth, of which I am chairman, has been conducting a study of children's charities and the adequacy of existing legislation in this field. I intend to hold hearings on this matter, commencing February 4, 1974, and I would like to hear testimony on the Asthmatic Children's Foundation on February 5, 1974 at 10:00 a.m. in Room 4232 of the Hirksen Senate Office Building.

I believe the best way to present information on all aspects of the Foundation's activities is through a panel that includes you and the following people: Dr. Harold Abramson, co-founder of your organization; Dawrence Karnbad, who has been handling your financial matters; Bernard Perlman, your legal counsel and Israel Friedman, your executive secretary. I am inviting each of these people by separate letter.

I suggest that you confer with them in advance in order to prepare a joint written statement on all aspects of the activities of your organization. You should select one member of the panel to deliver the statement at the commencement of your testimony. The statement should take no more than fifteen minutes to deliver, although you may submit to the Subcommittee a written statement of any length you believe necessary.

Please address your prepared statement to the following matters: the types of servicingbeing provided by your organization to children; whether there is a need for more activity by charitable organizations in this area and, if so, the reason why such needs are not being met the program and supporting costs of your organization; and the methods you use to insure effective and economic operation; the nature of any problems you have encountered in raising funds, in obtaining permits to solicit in states having regulations concerning fund raising, and in devoting a reasonable portion of your receipts to program services.

In addition, please discuss the effectiveness of existing legislation affecting children's charities and provide the Subcommittee with your opinion about whether further legislation is needed and, if so, what kind.

In addition to your personal appearance on February 5, I am requesting the production of all leggers, journals, invoices and cancelled checks in your possession, which concern the last completed fiscal year of operation of each of the following enterprises: the Asthmatic Children's Foundation, the Asthmatic Children's Foundation of Florida, the Illinois Foundation for Asthma, the Asthma Publications Society, the Asthmatic Children's Foundation of New York, and the Women's Service for Asthma. Please feel free to bring with you any photographs, reports or other documents that you believe would aid the Subcommittee and the general public in understanding the activities of these organizations and the services they provide to children. For your information, the hearings are open to the general public and you are welcome to attend the session on February 4, which will begin at 10:00 a.m. I will provide you with a list of scheduled witnesses as soon as it is available.

I appreciate the full cooperation you have extended to the Subcommittee staff during the past few weeks, and I look forward to your testimony before the Subcommittee on February 5. If you have any questions concerning this request, please feel freeeto telephone Harvey Katz of the Subcommittee staff at (202) 225-8706.

I would like to receive a written or telegraphic reply to this letter by January 25, 1974. Committee rules require that you submit one hundred copies of your opening statement to the Subcommittee by the close of business on February 1, 1974

Thank you again for cooperating with me in this matter.

Sincerely,

Walter F. Mondale

HARRISON A. WILLIAMS, JR., N.J., CHAIRMAN
JENNINGS RANDOLPH, W. VA.
CLAIBORNE PELL, R.I.
EDWARD M. KENNEDY, MASS.
GAYLORD NELSON, WIS.
WALTER F. MONDALE, MINN.
THOMAS F. EAGLETON, MO.
ALAN CRANSTON, CALIF.
HAROLD E. HUGHES, IOWA
WILLIAM D. HATHAWAY, MAINE
JACOB K. JAVITS, N.Y.
PETER H. DOMINICK, COLO.
RICHARD S. SCHWEIKER, PA.
ROBERT TAFT, JR., OHIO
J. GLENN BEALL, JR., MD.
ROBERT T. STAFFORD, VT.

MARIO T. NOTO, STAFF DIRECTOR
ROBERT E. NAGLE, GENERAL COUNSEL

United States Senate
COMMITTEE ON
LABOR AND PUBLIC WELFARE
WASHINGTON, D.C. 20510

January 21, 1974

Bernard Perlman, Esquire
Attorney at Law
350 5th Avenue
New York, New York

Dear Mr. Perlman:

As chairman of the Senate Subcommittee on Children and Youth, I have been conducting a study of charitable organizations that benefit children and on the adequacy of existing legislation in this field. I intend to hold hearings on this matter commencing February 4, 1974, and I will hear testimony on the Asthmatic Children's Foundation on February 5, 1974 at 10:00 a.m. in Room 4232 of the Dirksen Senate Office Building. I have invited a panel of Foundation representatives to appear before the Subcommittee at this time to deliver a prepared statement on the activities of their organization, the need for legislation affecting children's charities, and other matters.

It is my understanding that you have been serving as legal counsel to the Asthmatic Children's Foundation. Please consider this a formal invitation to accompany the panel of Foundation representatives.who will appear before the Subcommittee on February 5. The panel will include the following individuals: Drs. Murray Peshkin and Harold Abramson, co-foudders of the Foundation; Mr. Lawrence Karnbad, who has been handling the group's financial matters; and Israel Friedman, executive secretary of the organization. You may wish to confer with these persons and assist them in preparing their testimony. I have also requested representatives of the Foundation to produce certain financial records of their organization and its affiliates.

If you have any questions concerning this request, please feel free to telephone Harvey Katz of the Subcommittee staff at (202) 225-8706. I am looking forward to seeing you on February 5.

Sincerely,

Walter F. Mondale
Chairman
Subcommittee on Children
and Youth

Senator **Mondale**. Do you have an attorney with you today?

Dr. **Abramson**. No, we do not have an attorney. It would cost a good deal to bring one down and, according to our president, he felt since you were investigating what we did, and this was not a trial, that we are perfectly willing to tell you what we do, and how we do it. Our president, Dr. Peshkin on my left, did not see any need for counsel.

If there is any need for counsel, I believe the president of the foundation will be very happy to get one.

Senator **Mondale**. We would prefer that you have counsel, but it is up to you.

Dr. **Abramson**. I have nothing to do with the operation of the fundraising. I am chief psychiatric consultant, and have more or less guided the foundation in terms of policies in regard to the management of children.

Senator **Mondale**. You may proceed.

STATEMENT OF HAROLD ABRAMSON, M.D., CHIEF PSYCHIATRIC CONSULTANT, ASTHMATIC CHILDREN'S FOUNDATION; ACCOMPANIED BY M. MURRAY PESHKIN, M.D., LAWRENCE KARNBAD, AND ISRAEL FRIEDMAN, A PANEL

Dr. **Abramson**. The following report is a classical result of the efforts made by Dr. M. Murray Peshkin and his disciples over a period of 40 years. This report is organized to answer briefly the questions asked by your committee.

The Asthmatic Children's Foundation is a nonprofit tax-exempt voluntary organization. It provides comprehensive long-term residential care and treatment to a special group of children whose severe chronic asthma did not respond to ordinary therapy while the child was residing at home. It has been found that the major step which usually leads to important improvement in the health of these children is through temporary separation of the children from their parents by placing them in residential treatment centers. This temporary separation of the children from their parents has been called "parentectomy."

I would like to include for the record Dr. Peshkin's data published in 1956, "Basic Classical Data," showing in what way the children who underwent long-term therapy improved on going home, and the data would be too long to present in view of the time, and I am therefore giving you this data for the record.

Senator **Mondale**. That will appear in the record.

Dr. **Abramson**. The national organization of the Asthmatic Children's Foundation founded and supports Asthma Publications Society, which publishes "The Journal of Asthma Research," a quarterly professional publication. No other journal is devoted to presenting allergy and asthma research data of a multidisciplinary nature.

The papers this journal has published for the last 10 years have provided new meanings and new channels of communication for the sociologist, psychologist, anthropologist, psychiatrist, allergist, and other interested professionals.

For the record I would like to present these papers, and in the envelope you will find the information published showing our efforts to treat the total child rather than limit it to organic treatment or psychological treatment. We have gone out of our way to give every voice in the chaotic medical practice some chance to be heard.

Senator **Mondale**. Without objection, that also will appear in the record.

[The material referred to follows:]

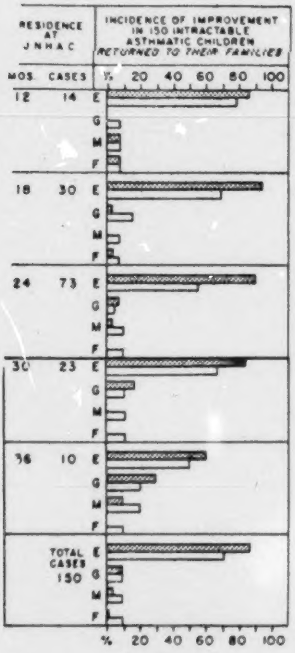


Fig. 3

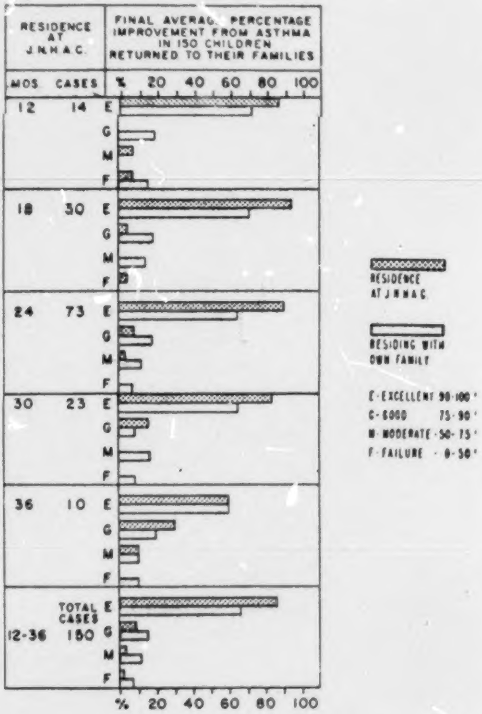


Fig. 4

Fig. 3. Comparative percentage relief from asthma in 150 intractable asthmatic children in residence 12 to 36 months in the "Home" at Denver and 12 months after they have been returned to their own homes.

Fig. 4. Comparative percentage relief from asthma in 150 intractable asthmatic children in residence 12 to 36 months in the "Home" at Denver, and after they have been returned for 12 to 96 months to their own homes, for an average of 35.5 months per patient.

Dr. ABRAMSON. The Asthmatic Children's Foundation also founded and supports the Association of Convalescent Homes and Hospitals for Asthmatic Children. This association sponsors annual meetings, the purpose of which is to provide a forum for scientists and physicians to present their papers and discuss recent advances in the treatment of asthma, allergy, and related specialties.

After being subjected to thorough discussion by the participants at the conference, the reports are submitted to the "Journal of Asthma Research" for possible publication. The association also sponsors a postgraduate course in pediatric allergy at these annual conferences. This course is attended by allergists who have a particular interest in the problems of the intractably asthmatic child, and I would like it to be understood the intractably asthmatic child is one who might die if he is not taken away to a residential treatment center.

The Asthmatic Children's Foundation has built and maintains two residential treatment centers; one in North Miami Beach, Fla., and one in Ossining, N.Y. For the record these are pictures of the two institutions which have been put up on the basis of the fundraising by the foundation.

Senator MONDALE. Those will be printed in the record at this point.

[The material referred to follows:]

THE ASTHMATIC CHILDREN'S FOUNDATION RESIDENTIAL TREATMENT CENTER

The Asthmatic Children's Foundation Residential Treatment Center at 1800 N. E. 168th Street in North Miami Beach, Florida, is licensed as a 30 bed Comprehensive Nursing Care Home. Children between the ages of six and twelve years who have severe or intractable asthma are eligible for admission, regardless of race or creed. They must have previously been treated by acceptable modern allergy management—to have been skin tested and hyposensitized and have been shown to be refractory to such treatment after one year or more. It is especially equipped to handle these patients.

The usual average length of stay is a year to a year and a half or two years, depending upon the individual case. Transportation is provided to the public schools in our bus. Different faiths are represented and each child is encouraged to observe his own religion, while he learns to respect another child's belief.

Constant medical surveillance of the children is provided with a registered nurse always on duty and doctors always on call. Counsellors work closely with the children in a supportive capacity to insure normal social development and every effort is made to encourage normal living conditions.

Situated on a whole city block, the facility includes a large outdoor playground, a gym for indoor play, a large recreation living room where the children enjoy quiet games and television and a spacious dining room served by a modern stainless steel kitchen. The colonial-style type building, with its antique brick front entry, provides a home atmosphere, a home-away-from-home. The bedrooms are set up three children to a room. Each child has his own closet, bed and desk, and there are a bath, dressing area and television in each room.

No fee is charged for any service rendered. Parents who can afford to do so make monthly contributions in accordance with their means.

Approximately 3,000,000 children under 15 years of age in this country are victims of asthma. About 250,000 to 300,000 of these asthmatic children suffer from a form of the disease known as severe intractable crippling asthma — once labeled "incurable." In this group of severely afflicted children, the highest mortality occurs. There are also many days lost from school, days spent in the sick bed, numerous hospitalizations and many frequent visits to the hospital emergency room. The cost of medicines alone becomes almost prohibitive to maintain children like these in a reasonable state of health.

By means of long-term, inpatient institutional care in a restorative setting such as our institution, many hopeless and helpless children who have not responded to conventional allergy care at home can look forward to a life of usefulness. It is one of four homes in the United States devoted exclusively to the rehabilitation of the severely compromised asthmatic child, the only one in the Southeastern part of the country.

Our Center has a full complement of registered nurses, pediatric allergists, a pediatric psychiatrist and pediatricians. We also have the services of one of the outstanding pulmonary laboratories in the country to regularly monitor our patients' progress. At our Center we are doing clinical research in new and improved techniques of treatment. Each day at the Center, girls and boys do respond to the expert treatment they receive. More than 90% of the children who are "graduates" from our institution continue to lead normal lives without the prospect of permanent crippling effects that might have ensued had they not been so treated.

For further information call (305) 538-1187 or 538-3931

The Asthmatic Children's Foundation of New York is privileged to announce that it is accepting patients at its Residential Treatment Center, located on 33 acres of wooded property at Spring Valley Road, Ossining, New York.

Children between the ages of six and twelve years who have severe asthma will be eligible for admission, regardless of race or creed. The treatment center is especially equipped to handle those patients who have failed to respond to modern allergy management, including those children who are dependent on corticosteroid preparations.

The Treatment Center will accept children with the following three types of severe asthma:

Type 1. **Intractable Asthma.** Those severely ill children who have been treated by standard methods of allergy practice for one year or more and who remain essentially unresponsive to treatment. Patients may remain in residence for one year or more.

Type 2. **Potential Intractably Asthmatic Children.** Recent studies of asthmatic children make it desirable to amplify and extend our primary program (Type 1) by rehabilitating *potential* intractably asthmatic children. This is especially important to children who have been controlled by constant administration of corticosteroids for periods of three months or more. It is conceivable that some of these severely ill asthmatic children controlled by corticosteroids represent a condition of masked intractability.

Type 3. **Other Types.** These severely ill asthmatic children are those in whom sociological factors preclude proper physical, as well as psychological, therapy. Lack of knowledge by the parents may lead to intractability. Rehabilitation procedures, both physical and psychological, will be organized and instituted.

Although patients of Type 2 and Type 3 will require individual assessment, residential care will probably last six months or more.

The road to recovery will be expedited by appropriate nursing and medical supervision. Counsellors will work closely with the children in a supportive capacity to insure normal development. In this connection, normal living conditions will be encouraged. The children will attend public schools in Ossining, and religious training will be provided at the request of the parents. It is anticipated that children will come primarily from New York.

The building illustrated is fully equipped to take care of thirty-six children. Indoor recreation facilities and professional offices are available. A large living room serves as a game and television area. The spacious dining room is serviced by a modern kitchen. Each bedroom accommodates three children, with each child having his own closet, bed, and desk. Each room has its own bath and dressing room areas. Children will remain in residence until a satisfactory rehabilitation is effected.

Applications for admission may be made preferably by mail, by any social service agency or physician, to the Asthmatic Children's Foundation of New York, Inc., Room 310, 133 East 58 Street, New York, New York 10022. This Residential Treatment Center is sponsored and supported by the Asthmatic Children's Foundation of New York, Inc.

A sister facility, sponsored by the Asthmatic Children's Foundation of Florida, Inc., has been in operation for the past eight years at North Miami Beach, Florida. This facility will serve as a haven for the few intractably asthmatic children who may not respond favorably at Ossining. Patients not residing in New York State are eligible for admission to the Florida facility. Closely associated with the Asthmatic Children's Foundation of New York are the Asthma Publications Society, the Journal of Asthma Research, and the Association of Convalescent Homes and Hospitals for Asthmatic Children.

Officers and Board of Directors
Asthmatic Children's Foundation of New York, Inc.

M. Murray Peshkin, M.D.	President
Joseph Kahn	Vice President
Saul L. Meylackson, M.D.	Vice President
Philip Wise	Treasurer
Harold A. Abramson, M.D.	Assistant Treasurer
Clara Strassberg	Secretary
Israel Friedman	Assistant Secretary

Maurice Austin
Pasquale A. Carone, M.D.
Isadore P. Eisenberg
Henry Himmell
Nick Kenny

Howard G. Rapaport, M.D.
George Robinson
André Rolo, M.D.
Samuel Rosen
Ralph Schaler

Asthmatic Children's Foundation Residential Treatment Center, Ossining, New York

Medical Staff

M. Murray Peshkin, M.D.	Chief Medical Officer
Armond V. Mascia, M.D.	Associate Director
Abraham Yurkofsky, M.D.	Associate Director

Active Attending Staff

Edward A. Friedman, Jr., M.D.	Pediatric Allergist
Neil C. Goldman, M.D.	Allergist
Michael A. Kornfield, M.D.	Pediatric Allergist

Consulting Staff

Harold A. Abramson, M.D.	Psychiatrist
Paul F. DeGara, M.D.	Allergist
George E. Gaillard, M.D.	Allergist
Lawrence Maslansky, M.D.	Allergist

Consultant Specialists

Peter B. Farnsworth, M.D.	Cardiologist
Jack Eisert, M.D.	Dermatologist
Philip Pileggi, D.D.S.	Dentist
Irvin S. Taylor, M.D.	Opthalmologist
George Burak, M.D.	Orthopedist
Robert W. Murray, M.D.	Otolaryngologist
Niels L. Low, M.D.	Neurologist
Antonio Cocchiarella, M.D.	Physiatrist
John Pileggi, M.D.	Radiologist
David S. Lubell, M.D.	Pediatrician
Richard C. Ames, M.D.	Surgeon

Medical Board

M. Murray Peshkin, M.D.	President
Harold A. Abramson, M.D.	Vice President
Armond V. Mascia, M.D. and Abraham Yurkofsky, M.D.	Representatives from Medical Staff

Staff

Margaret E. Lambert, R.N.	Resident Administrator
Patricia G. Rudinski, R.N.	Director of Nursing Service
Mary Louise Ciuffetelli, L.P.N.	Staff Nurse
Lillian C. MacLellan, L.P.N.	Staff Nurse
Joan Isherwood, L.P.N.	Staff Nurse
Helga S. Weiner, M.A.	Psychologist
Marjorie Lichter	Secretary
Lenore Waldstreicher, M.S.W.	Social Work Consultant
Mark V. Smith, Jr.	Child Care Worker
Cheryl Minicucci, B.A.	Child Care Worker

Clara Strassberg — Liaison Director

Dr. **Abramson**. These facilities provide services to children with the following three types of severe asthma:

TYPE 1—INTRACTABLE ASTHMA

Those severely ill children who have been treated by standard methods of allergy practice for 1 year or more and who have remained essentially unresponsive to treatment. That means they may die. Patients may remain in residence for 1 year or more.

TYPE 2—POTENTIAL INTRACTABLY ASTHMATIC CHILDREN

Recent studies of asthmatic children make it desirable to amplify and extend our primary program—type 1—be rehabilitating potential intractably asthmatic children. This is especially important to children who have been controlled by constant administration of corticosteroids for periods of 3 months or more. It is conceivable that some of those severely ill asthmatic children controlled by corticosteroids represent a condition of masked intractability. This masked intractability can be dangerous to the health and the life of these children.

TYPE 3—OTHER TYPES

These severely ill asthmatic children are those in whom sociological factors preclude proper physical, as well as psychological, therapy. Lack of knowledge by the parents may lead to intractability. Rehabilitation procedures, both physical and psychological, are part of our program.

Another function of the Asthmatic Children's Foundation is to study the efficacy of present pharmacologic and psychologic treatments. The research planned will especially study the adverse side effects of corticosteroid treatment, which masks the intractability of the severe asthmatic process.

Senator, I just hope you will include this exhibit as a summary of the long-term administration of corticosteroid treatment, because this masks the fact that the children are ill, and as Dr. Peshkin will testify, it is this masked intractability which leads to the death of children, and I feel a real research program is needed to change our present methods of therapy.

Senator **Mondale**. Very well, that wiill appear in the record.

[The material referred to follows:]

Summary of Effects of Long-Term Administration of Corticosteroids.

Reference.... P.D.R. 1972. page 1198

Long-term administration of corticosteroids usually causes a reduction in the hormonal activity and size of the adrenal cortex. Relative adrenocortical insufficiency may be avoided by gradual reduction of dosage before treatment is discontinued. Even with gradual withdrawal, potentially critical asymptomatic adrenal insufficiency may persist for some time. Therefore, if a patient is subjected to significant stress, such as surgery or trauma, while being treated or within one year (occasionally up to two years) after treatment has been terminated, such treatment should be reinstituted or augmented and continued for duration of the stress and immediately following it. Because adrenal secretion of mineralocorticoids may be impaired, salt or desoxycorticosterone, or both, should be administered concurrently. Soluble hormone preparations are recommended for the immediate preoperative and postoperative periods.

Corticosteroids may mask the signs of infection and enhance the dissemination of an infecting organism. Hence, patients receiving corticosteroids should be watched for evidence of intercurrent infection. Should infection occur, vigorous, appropriate anti-infective therapy should be initiated. Abrupt withdrawal of corticosteroids should be avoided because of the danger of superimposing adrenocortical insufficiency on the infectious process. Corticosteroids should not be administered to patients with an acute or chronic infection unless the condition is severe enough to warrant possible exacerbation of the infection and unless appropriate anti-infective agents are administered concurrently in amounts adequate to control the infection. In individuals exposed to, or in the active phase of, chickenpox or other exanthematous disease, it may be desirable to reduce or discontinue corticosteroid treatment temporarily.

Gastric hyperacidity or peptic ulcer or its complications may occur in patients receiving long-term treatment with corticosteroids, even in the absence of a history of peptic ulcer, perforation or hemorrhage, or both, may occur without premonitory symptoms. Patients with a history of peptic ulcer should be observed carefully, maintained on a prophylactic antiulcer regimen, and evaluated periodically by diagnostic x-ray films of the upper gastrointestinal tract. Patients without a history of ulcer who complain of gastric symptoms during treatment should also receive diagnostic x-ray evaluation. Whether or not changes are noted, an antiulcer regimen is recommended.

Treatment with corticosteroids may aggravate diabetes mellitus or precipitate it in latent diabetics. Insulin requirements may increase.

Continued clinical supervision is essential following corticosteroid withdrawal because the disease treated may recur suddenly.

Spontaneous remission of some diseases, such as rheumatoid arthritis, may occur during pregnancy. Corticosteroid therapy in the pregnant patient should therefore be avoided if possible.

The growth suppression that occurs in children given corticosteroids over long periods, and the frequency of viral infections in this age group, warrant limiting the use of betamethasone in children to severe disease.

Dr. **Abramson**. Our present methods of fundraising have not resulted in sufficient funds to implement these programs.

Approximately 3 million children under 15 years of age in this country are victims of asthma. About 250,000 of these asthmatic children suffer from a form of the disease known as intractable asthma, which was once labeled "incurable." The highest mortality rate due to asthma occurs in this group. Death may also occur when the seriousness of the disease is hidden because of the administration of corticosteroids. The severely ill asthmatic child may suffer many days lost from school, days spent in the sick bed, numerous hospitalizations, and many frequent visits to the hospital emergency room.

The cost to the family of medicines alone becomes almost prohibitive, in order to maintain such children, not only in a reasonable state of health, but also to prevent them from dying. Many crippled children who have not responded to conventional allergy care in their own homes can look forward to lives of usefulness after a period of long-term residential care, and this will be found in the exhibit as shown and Dr. Peshkin's data.

The Asthmatic Children's Foundation helps to maintain two of the four facilities in the United States which are devoted exclusively to the rehabilitation of intractably asthmatic children. In addition, there are approximately a dozen general convalescent children's facilities providing the long-term care which is required for the rehabilitation of the intractably asthmatic. The large number of intractable asthmatic children, nearly 250,000 in the United States alone, could overwhel mthe existing facilities.

About 5 years ago there were less than 1,000 beds available in all institutions for the long-term care of intractably asthmatic children. Today, our data indicates that the number of beds has decreased, possibly due to the high cost of the services provided by the institutions and their inability to raise the money necessary for the long-term care needed.

In order to understand the high cost of rehabilitation, we must understand that the illness of the intractably asthmatic child is always complicated by profound emotional disturbance, which not only threatens the child's own stability but also that of his family. It has been our purpose wherever possible to rehabilitate the child, while at the same time to endeavor to restructure the family constellation. This is done so that the rehabilitated child will return to a home which is more readily adapted to his needs. At our facility in Ossining the cost of the psychological care of the child, and I would like to emphasize this, Senator, the cost of the psychological care of the child, excluding nursing care, is about six times that of medical services supplied by physicians.

During the last fiscal year, it cost slightly over $500,000 to maintain our facilities in Ossining, N.Y., and in north Miami Beach, Fla. Details of these costs have been submitted to and are in the hands of your committee.

In view of the success of our present method of treatment, it would be most important to expand our program to include adolescents and adults. We have been able to create and maintain our two residential treatment facilities through our present methods of fund raising. However, we do not have sufficient resources to defray the capital expenditures and maintenance costs this expanded program would require and this is most regrettable.

Senator **Mondale**. How many children do you care for, if you had a figure for the average daily occupancy rate?

Dr. **Abramson**. May I call on Mr. Friedman?

Senator **Mondale**. Yes.

Mr. **Friedman**. At the present time there are 50 children in these two facilities.

Senator **Mondale**. Would that be about average for the year?

Mr. **Friedman**. It varies.

Senator **Mondale**. Is this a little higher or lower?

Mr. **Friedman**. Well, it is our present census. It might have been four or five less at one time in the year. It is 50 right now. It may be 52 or 54 or 56 within another 2 or 3 months.

Senator **Mondale**. But it is a representative random point to look at? It does not overstate, it does not understate it?

Mr. **Friedman**. That is right.

Dr. **Abramson**. I would like to make one other point. The Ossining facility is less than 3 years old—2 years old last September. They have gone through a number of birth pangs trying to get going, because the problems dealing with various groups involved—we have a very heterogenous——

Senator **Mondale**. How many children do you have occupying the beds at Ossining?

Dr. **Abramson**. I think there are about 22.

Senator **Mondale**. How much did that facility cost you? Just roughly?

Mr. **Karnbad**. A little over $300,000 originally.

Senator **Mondale**. Actually I asked for the original facility cost.

Dr. **Abramson**. I can tell you roughly. The land cost about a quarter of a million dollars; we have about 30 acres, and the building cost about $750,000.

Senator **Mondale**. And it cost about $300,000 to run the facility last year?

Mr. **Karnbad**. Yes.

Senator **Mondale**. And you care for approximately 22 children?

Dr. **Abramson**. We really have beds for 36.

Mr. **Karnbad**. No; the actual cost of the facility was $1 million to set up, and the actual running costs of the facility last year amounted to a little over $350,000.

Senator **Mondale**. And the average is roughly 22 children in that facility?

Mr. **Karnbad**. Yes.

Dr. **Abramson**. But I would like to add that our population is slowly growing. We hope we will hit about 30 by next year.

Senator **Mondale**. Would you proceed.

Dr. **Abramson**. At the beginning of each fiscal year, we prepare a detailed budget, which is broken down into various categories, such as nursing care, professional services, dietary services, building operation and maintenance, housekeeping, and general administration.

The actual expenditures are reviewed quarterly and compared with the budget figures set up at the beginning of the year. Appropriate measures are taken to curtail expenditures when the actual costs begin to exceed the budgeted cost. Prior to payment, each voucher is approved on a weekly basis by a member of the board of directors and the administrator of the facility. Each check requires two signatures, and a careful control is exercised with regard to all expenditures.

I come to a somewhat delicate matter here, fundraising. Fundraising restrictions exist in various States and localities, and therefore, we do not solicit funds in certain areas. The entire net proceeds of funds raised are used to provide program services. We employ no professional fundraisers, nor full-time public relations personnel. Although legislation exists in some States pertaining to children's charities, this legislation varies from State to State and municipality to municipality. However, there is no uniform specific legislation regarding State aid to the facility which provides long-term treatment to the severely asthmatic child.

We believe that legislation on a national level, which will attempt to correct the deficiencies and discrepancies in existing State laws, is an urgent priority. Only with this support can we hope to truly succeed in helping the intractably asthmatic child, adolescent, and adult on a national level.

Senator, I feel it has been a privilege for me to present foundation data—and these are foundation data—to you and your committee. I hope that you will comment on present and future programs of the Asthmatic Children's Foundation for publication in the pages of the Journal of Asthmatic Research.

We would like a reassessment of what we are doing by you. I know you are interested. We want the foundation as well as the medical profession, which the journal serves, to join their experience with yours to salvage the lives and families of the one-quarter million chronically ill asthmatic children.

Senator **Mondale**. Thank you very much.

I have identified seven organiaztions that I understand are controlled by you and closely related to the Asthmatic Children's Foundation National, the Asthmatic Children's Foundation of New York, the Asthmatic Children's Foundation of Florida, the Asthma Publication Society, the Illinois Foundation for Asthma, the Women's Service for Asthma, and the Association of Convalescent Homes and Hospitals for Asthmatic Children.

Are those all under your aegis?

Dr. **Abramson**. I think Mr. Friedman could best answer.

Mr. **Friedman**. These were all founded by Dr. Peshkin.

Senator **Mondale**. Would you go down each of these and tell me when it was formed by you, why it was formed, what does it do today, and where does it get its money.

Mr. **Friedman**. I think as to why it was formed, I think Dr. Peshkin is the best one to answer that question because he formed it.

Senator **Mondale**. We have seven organizations. Why did you form the Asthmatic Children's Foundation, the national one?

Dr. **Peshkin**. In 1919 I established a children's allergy clinic at Mount Sinai Hospital in New York. It did not take too many years to find that we had a certain percentage of asthmatic children whose asthma was so chronic that no matter what method of treatment we used at our disposal at that time, it failed.

These children were chronic visitors to the emergency services of many hospitals. They were absent from school most of the time that they were confined to their own homes, and they were a tremendous burden to the parents whose children we took care of.

Finally it became a sociological problem as well as a psychological problem, but we discovered that. It did not take too long to find that a home from which a child came from may be only one or two blocks away from Mount Sinai Hospital. The child was brought to the hospital with severe asthma and had to be given emergency treatment, which included the administration of oxygen. We found that 9 out of 10 patients who were admitted to the emergency service, had to be hospitalized. We found that 9 out of these 10 children were relieved from severe asthma or almost all asthma within a period of 72 hours.

This result was very striking to me at the time because 92 percent of the asthmatic children came to our clinic responded reasonably well to the accepted methods of treatmena. However, the remaining 8 percent of these asthmatic children not only a difficult time, but it was usually recognizable that when these children came to the hospital often in a state of coma, unconscious, and occasionally in order for them to survive, a tracheotomy was performed—tracheotomy is a well-known operation in which you stick the trachea with a knife and put tubes there so they can get air.

Not only were they given oxygen, they were given all kinds of drugs and medicines they had before, but within 72 hours, I repeat, most of them did very well.

This striking observation had to be put to clinical use. We found after a study at Mount Sinai Hospital, which was a research study, I kept children there up to 3 months. This was a special grant. Fortunately it was provided by one of the greatest pediatricians known in this world, the late Dr. Bella Schick, the inventor of the Schick test for diphtheria.

He recognized the need, and he said it is very important to save these children's lives, save them from suffering, and not return them to their homes, because even after 3 months absence from their homes, the very night or second or third night after they are home, the asthma became just as violent at that time as when we first admitted them to the hospital.

So it occurred to me the only way to save these children was to establish residential asthma treatment centers. At that time we did not have the privilege to do so, so we sent them to the usual general children's convalescen homes, which took care of all kinds of sick children in need of convalescent treatment.

The asthmatic children did reasonably well there, but we found during the relatively brief period of residence treatment for one to three months, asthma recurred with days of their return to their own homes.

Finally, in 1940, we established in Denver, Colorado a children's asthma center which provided long term residential treatment (from 18 to 24 months). It was known as the Children's Asthma Research Hospital. During my service as Chief National Medical Consultant (1940–1962) many scientific reports were published in various medical journals. These meaningful studies helped to formulate the basis of the current successful management of the intractably asthmatic child.

Senator **Mondale**. What is the name of the organization you started in 1940?

Dr. **Peshkin**. I had no organization. I was invited by the National Home for Children in Denver, Colo., which housed well children of the tuberculosis poor.

Senator **Mondale**. I am trying to find out—let us begin again. When was each of the following organizations formed: the Asthmatic Children's Foundation National? When was that formed?

Mr. **Friedman**. In 1962.

Senator **Mondale**. When was the Asthmatic Children's Foundation of New York formed?

Dr. **Peshkin**. About 10 years ago.

Senator **Mondale**. Do we not know?

Mr. **Friedman**. 1963 or 1964.

Senator **Mondale**. Let us say 1963. If it is different let me know. When was the Asthmatic Children's Foundation of Florida formed?

Mr. **Friedman**. 1963.

Senator **Mondale**. When was the Asthmatic Publications Society formed?

Mr. **Friedman**. I think in 1963.

Dr. **Abramson**. Senator, may I interrupt?

Senator **Mondale**. Yes.

Dr. **Abramson**. I do not believe this group is ready to provide exact dates.

Senator **Mondale**. Correct them if they are wrong.

Dr. **Abramson**. However, we can give approximate dates. These satellite institutions were formed because of either different functions or the legal needs of a particular State.

Senator **Mondale**. Let me just get the dates and then we will get to that.

When was the Illinois Foundation for Asthma formed?

Mr. **Friedman**. I think in 1964. Incidentally, that is no longer active. That is a dormant organization. That was some 4 or 5 years ago. They are about to disburse the funds. In fact, there is a meeting I think this week in which they are going to disburse their funds.

Senator **Mondale**. The Women's Service for Asthma?

Dr. **Peshkin**. The Women's Service for Asthma was a private group of women who were——

Senator **Mondale**. In what year was it set up?

Mr. **Karnbad**. In the early 1950's.

Senator **Mondale**. Then the Association of Convalescent Homes and Hospitals for Asthmatic Children. When was that set up?

Mr. **Friedman**. 1963 or 1964.

Senator **Mondale**. Just tell me very briefly if you can by way of general description—I will ask questions if I have them—why was the Asthmatic Children's Foundation National established? What function did it perform? How was it created?

Dr. **Peshkin**. When we recognized that asthma was not a local problem, we started to make it a national problem, to create enough interest to get enough people throughout the country, and in fact in the different States, to concentrate on this type of unfortunately sick child so the Asthmatic Children's Foundation National was created to raise funds at that time and distribute these moneys to the various rehabilitation centers that especially took care of intractably asthmatic children. Very few of the centers which were created were for the chronically asthmatic child.

Senator **Mondale**. So would it be fair to say that the Asthmatic Children's Foundation National was established in order to raise money for these asthmatic health care programs?

Dr. **Peskhin**. For the various organizations or institutions that devoted much of their time or all of their time to intractably asthmatic children on a long-term basis.

Senator **Mondale**. When was Mr. Geisler's organization retained for mail solicitation? When was that?

Mr. **Friedman**. In 1962 when we formed the Asthmatic Children's Foundation.

Senator **Mondale**. The Asthmatic Children's Foundation then hired Mr. Geisler to handle the mail solicitation?

Mr. **Friedman**. Yes.

Senator **Mondale**. Why was the Asthmatic Children's Foundation of New York then established? What did it do?

Dr. **Peshkin**. On the basis of our experience with the Asthmatic Children's Foundation where we formed our first full-time facility, incorporated in the State of Florida. This facility was built as a rehabilitation asthma center, purposely limited to 30 or 35 children. We experimented with the idea of creating a home away from home.

As a result of National's aid to the Asthmatic Children's Foundation it grew and functioned and to date developed in my opinion an excellent reputation for successfully rehabilitating intractably asthmatic children who come to Florida's residential asthmatic treatment center from various parts of the United States.

Senator **Mondale**. Does the Asthmatic Children's Foundation of New York raise money?

Dr. **Peshkin**. Yes.

Senator **Mondale**. Did it start raising money in 1963?

Dr. **Peshkin**. No.

Senator **Mondale**. When did it first start raising money?

Mr. **Friedman**. Maybe 1964.

Senator **Mondale**. But it was shortly after it was founded, among its functions was the raising of money?

Mr. **Friedman**. Yes, and I think I may answer your previous question. The purpose of creating the Asthmatic Children's Foundation of Florida was to have a local board of directors who would supervise the Asthmatic Children's Foundation Residential Treatment Center, and they raised funds only in the State of Florida.

Senator **Mondale**. So the Asthmatic Children's Foundation of Florida runs the local treatment facility and raises money in Florida?

Mr. Friedman. Only in the State of Florida.

Senator Mondale. What about the one in New York?

Mr. Friedman. The one in New York operates and supervises the Asthmatic Foundation of New York.

Senator Mondale. And it also raises money?

Mr. Friedman. It also raises money in the State of New York.

Senator Mondale. Why was the Illinois Foundation for Asthma established?

Mr. Friedman. Our original thought was to establish a residential treatment center in Illinois and two of Dr. Peshkin's very good friends, Dr. Leon Unger and Dr. Morris Kaplan were very active, and they were very anxious to have a residential treatment center in the State of Illinois.

About 5 years ago a local institution, La Rabida Sanitarium [phonetic] for Children, which is a general convalescent hospital, established a residential treatment center for asthmatic children, so there was no longer need to set up a new facility at the expense of a quarter or a half million dollars or more. So the Illinois Foundation for Asthma has been making grants to the La Rabida Sanitarium.

Senator Mondale. Did the Illinois Foundation ever raise money?

Mr. Friedman. Yes, they raised money only in the State of Illinois?

Senator Mondale. And they discontinued now for some years?

Mr. Friedman. That is right.

Senator Mondale. And that is in the process of being disbanded?

Mr. Friedman. That is right.

Senator Mondale. Now, what is the Asthma Publications Society? What does that do?

Mr. Friedman. The Asthma Publications Society, as Dr. Abramson read in his presentation, publishes the Journal of Asthma Research, a quartely scientific medical publication. It is supported by the Asthmatic Children's Foundation [National].

Senator Mondale. And you also sell ads, do you not?

Mr. Friedman. There are several ads in each issue. It does not amount to very much. The total income from ads brought in $1,781 last year, and there are also subscriptions. Subscriptions brought in $5,263 last year.

Dr. Abramson made a personal contribution of $940 last year.

The Asthmatic Children's Foundation [National] made a grant last year of $15,000 to subsidize the Asthma Publications Society which publishes the journal.

Senator Mondale. What does the Women's Service for Asthma do?

Mr. Friedman. This is a women's group that was incidentally founded by Dr. Peshkin's wife, Mrs. Lillian Peshkin. Their original thought was to help with allergies. In fact the name at first was the Women's Service for Allergies.

They are a fund-raising organization, and they are incorporated in the State of New York and they later changed their name to Women's Service for Asthma.

They gave grants to clinics, to the home in Denver, and now they have become an official affiliate of the Asthmatic Children's

Foundation of New York, but they are an independent corporation.

Senator **Mondale**. Do they still raise money?

Mr. **Friedman**. Yes. Mr. Karnbad, how much did they raise last year?

Mr. **Karnbad**. About $5,000.

Senator **Mondale**. So it is a small operation.

Mr. **Friedman**. That is right.

Senator **Mondale**. What about the Association of Convalescent Homes and Hospitals?

Mr. **Friedman**. Dr. Peshkin founded this organization. This is an organization made up of representatives of the various convalescent homes for asthmatic children throughout the United States and also of physicians who are interested in other disciplines, who are interested in the intractably asthmatic child.

They have an annual meeting—and you are given a program, and I have additional copies of their program—a postgraduate course in pediatric allergy that was just concluded at the Americana Hotel in Bal Harbour, Fla., in mid-January.

Senator **Mondale**. I'd like to go quickly over these same organizations, and where they get their operating funds. The Asthmatic Children's Foundation National naturally, I assume, gets such funds as it uses from fundraising costs.

Mr. **Friedman**. Yes.

Senator **Mondale**. Asthmatic Children of New York? Where do they get their money?

Mr. **Friedman**. From fundraising.

Senator **Mondale**. From the national fundraising?

Mr. **Friedman**. No; from New York fundraising.

Senator **Mondale**. All of the money spent by the New York organization is from State-raised money; is that right?

Mr. **Karnbad**. Yes.

Senator **Mondale**. None of it comes in from the outside?

Mr. **Karnbad**. We do get aid from the State of New York also.

Senator **Mondale**. You do get some aid from the city?

Mr. **Karnbad**. Yes.

Senator **Mondale**. But none of the money raised from the national organization goes to the New York organization?

Mr. **Friedman**. May I supplement this?

Senator **Mondale**. Yes.

Mr. **Friedman**. Historically the Asthmatic Children's Foundation, the national organization, contributed the funds, original funds, for purchasing the property, and helped build the property at Ossining, N.Y.

Currently the Asthmatic Children's Foundation nationally is subsidizing the care of—that is, just during this current fiscal year—the Asthmatic Children's Foundation of New York because the Asthmatic Children's Foundation of New York cannot raise sufficient funds to accept children from outside the State as well as New York children.

The Asthmatic Children's Foundation, the national foundation, will subsidize the children from outside the State of New York that reside in the residential treatment facility in Ossining, N.Y.

Senator **Mondale**. Where does the Florida organization get its money?

Mr. **Friedman**. They raise funds in the State of Florida. They also received a grant from the Asthmatic Children's Foundation National organization of $90,000 during the last fiscal year.

The Asthmatic Children's Foundation built the structure and owns the structure. It is operated by the Asthmatic Children's Foundation of Florida, but the title is in the name of the Asthmatic Children's National. They are supposed to pay a dollar a year, which we do not collect.

Senator **Mondale**. The Asthma Publication Society gets some money from subscriptions.

Mr. **Friedman**. Yes.

Senator **Mondale**. Where does the rest come from?

Mr. **Friedman**. $15,000 was granted by the Asthmatic Children's Foundation National last year.

Senator **Mondale**. Did the Illinois Foundation spend any money last year?

Mr. **Friedman**. I do not think they disbursed any funds last year.

Senator **Mondale**. Did they have any reserves?

Mr. **Friedman**. They had $40,000, and I think their funds are to be disbursed this week.

Senator **Mondale**. From where does the Women's Service get its operating money?

Mr. **Friedman**. They have luncheons, they have card parties, they get donations, memorial contributions, and that sort of thing. They do not do any fundraising?

Senator **Mondale**. There is no money from the national that goes to the women's organization?

Mr. **Friedman**. No.

Senator **Mondale**. As to the Association of Convalescent Homes?

Mr. **Friedman**. The Association of Convalescent Homes and Hospitals for Asthmatic Children was established originally by a grant from the Asthmatic Children's Foundation National. The Association of Convalescent Homes and Hospitals for Asthmatic Children subsequent to that time has been able to get grants from pharmaceutical houses, from doctors who attend the postgraduate courses for pediatric allergy, for which they pay registration fees, so that the Asthmatic Children's Foundation National provides my services as executive vice president without any charge to organize these meetings and to supervise the organization.

Senator **Mondale**. Are those annual meetings?

Mr. **Friedman**. That's right.

Senator **Mondale**. Am I correct in stating that three of the groups on that list we have seen—National, the Illinois Foundation, the Women's Service—were created for supporting purposes only, that is, raising money for the other ACF groups?

Mr. **Karnbad**. The Women's Service was formed approximately 10 years prior to the formation of the other foundations.

Senator **Mondale**. Then with respect to two of the groups they were created solely for raising money for other ACF groups; is that correct?

Mr. **Friedman**. Not just ACF groups. The Illinois gives grants for research. It does not limit itself to asthmatic children at all. In fact most of their grants are given to research grants and to the La Rabida Sanitarium, to the Asthmatic Children's Aid Society of Chicago. Very little of their money has gone to the Asthmatic Children's Foundation.

Senator **Mondale**. It is my understanding that most of your money is raised through the ACF National and the ACF New York and ACF Florida; is that correct?

Mr. **Karnbad**. Yes.

Senator **Mondale**. Do I understand that the ACF of New York solicits solely in New York?

Mr. **Karnbad**. Yes.

Mr. **Friedman**. Yes. Some small amount of solicitations in Connecticut, small amount in Massachusetts—very, very small—small amount of solicitations in Washington, D.C.; but very small.

Senator **Mondale**. And the ACF of Florida solicits solely in Florida?

Mr. **Friedman**. Solely in Florida, yes.

Senator **Mondale**. Where does the ACF National solicit?

Mr. **Friedman**. It solicits—oh, I do not know offhand, but I would say in maybe about 25 other States throughout the United States, maybe more.

Senator **Mondale**. You mentioned that you do not solicit in certain States. Which States are they and why do you not solicit in them?

Mr. **Friedman**. We do not solicit in Illinois because that was originally the Illinois Foundation. We do not solicit in the State of New York because that is solicited by ACF in New York. We do not in Florida because that is solicited by ACF of Florida.

We do not solicit in a few other States. Let me see. Minnesota—there are some cities in California where we do not solicit. There is one city in Ohio, Columbia, Ohio, in which we do not solicit.

Senator **Mondale**. Why would you not solicit in those States and communities?

Mr. **Friedman**. There are regulations requiring limitations on fundraising costs in those communities in some cases. We do not solicit in Miami Beach, Fla., because in Miami Beach they have a limitation of 15 percent. You are only allowed fund raising costs which do not exceed 15 percent.

It is impossible to raise funds for less than 15 percent.

Senator **Mondale**. What percentage could you raise them for?

Mr. **Friedman**. Sir.

Senator **Mondale**. What percentage would be adequate?

Mr. **Friedman**. It depends.

Senator **Mondale**. Let me go back to that question later. You say you did not raise money in Minnesota.

Mr. **Friedman**. Yes.

Senator **Mondale**. Why would you not raise money there?

Mr. **Friedman**. I do not remember, but, as I recall, when we first started fundraising, we learned there were restrictions, and you are probably more familiar with those than I am. Wherever there are restrictions, we just stay out of those States. It became too troublesome to try.

Senator MONDALE. But in Minnesota all you had to do was submit an annual certified audit.

Mr. FRIEDMAN. Is that all? I do not remember what our problem was.

Senator MONDALE. Who made those judgments about which States you would or would not solicit? Was that Mr. Giesler?

Mr. FRIEDMAN. No. I made those judgments pretty much in consultation with Dr. Peshkin.

Senator MONDALE. What you did basically was to solicit funds in States and communities that had little or no regulations. If you found a State with substantial regulations, you just stayed out of it?

Mr. FRIEDMAN. That is right—well, no, pardon me.

In New York the ACF of New York solicited.

Senator MONDALE. I am talking about ACF National.

Mr. FRIEDMAN. Yes.

Senator MONDALE. So if I lived outside the State of New York or Florida, the only organization that would contact me is ACF National?

Mr. FRIEDMAN. But not in Minnesota because you live in Minnesota.

Senator MONDALE. That is correct. If I get a letter at all and I don't live in one of those States, it will be from ACF National?

Mr. FRIEDMAN. Correct.

Senator MONDALE. Any money I contribute to the ACF National will be used first to pay the operating expenses of ACF National and, secondly, to support one of your programs.

Mr. FRIEDMAN. That is right.

Senator MONDALE. I understand that just about all the money that finances these organizations is mailed through direct mail solicitation; is that correct?

Mr. FRIEDMAN. Yes.

Senator MONDALE. Is that true in Florida and Illinois as well as the National?

Mr. FRIEDMAN. Well, Illinois, as I say——

Senator MONDALE. I mean Florida and New York.

Mr. FRIEDMAN. Mostly mail.

Senator MONDALE. Does Mr. Giesler handle those?

Mr. FRIEDMAN. Yes. Incidentally, when you say substantial, Dr. Peshkin personally has contributed over $100,000 to this cause. On the occasion of his 80th birthday, which was a year ago last May, he made a contribution of $80,000 to the Asthmatic Children's Foundation of New York.

There are other individuals who have made contributions, many of them friends and patients of Dr. Peshkin.

Senator MONDALE. But it would be fair to say that the overwhelming proportion of your funds are raised through mail solicitation?

Mr. FRIEDMAN. That is right.

Senator MONDALE. I have here what I understand to be a standard direct mailing solicitation. I will not ask you to identify each one of these for me.

First of all, there are some stamps here which are the praying hands for peace, and the a letter signed by Dr. Peshkin with a picture of a small girl with a plea for help to support the centers.

Mr. FRIEDMAN. To support the centers, yes.

Senator MONDALE. And then on the back side, a brief description of what the centers do.

Mr. FRIEDMAN. Yes.

Senator MONDALE. Then there is a return envelope I gather directed to the Asthmatic Children's Foundation in care of Barnett Bank of Miami Beach, Fla., with a picture of a girl, and on the back there is a little code here which says NBX 73. What does that mean?

Mr. FRIEDMAN. The X stands for Christmas mailing. This was mailed at Christmas of 1973. The N stands for National.

Senator MONDALE. So that would be a National?

Mr. FRIEDMAN. What is the address on that little stamp?

Senator MONDALE. On the front?

Mr. FRIEDMAN. No; on the back. Is there not a little slip there? Oh, that one is blank.

That would normally have the name and address of the contributor. Incidentally, that envelope was not used with the praying hands. That little mailing was sent out with name stickers.

Senator MONDALE. You send one or the other but not both. The other alternative is 100 personalized holiday name labels?

Mr. FRIEDMAN. That is right.

Senator MONDALE. So what you would do, you would either send the stamps or these labels in one, but not both?

Mr. FRIEDMAN. That is right.

Senator MONDALE. Then there is a personal directory.

Mr. FRIEDMAN. That was a different mailing.

Senator MONDALE. You would have one of three alternatives.

Mr. FRIEDMAN. We did that just one time, this fall; yes. What you are referring to there, that was an order blank. We have discontinued that, by the way, since a year ago last month.

Senator MONDALE. You could order an Eisenhower painting.

Mr. FRIEDMAN. You could get an Eisenhower painting for a contribution. In those cases the people who made the contribution were offered this as you might say a reward for their contribution. We discontinued that because we found it was not worthwhile. We discontinued it a little over a year ago.

Senator MONDALE. Then you have gift items for friends of Asthmatic Foundations.

Mr. FRIEDMAN. That is the same as you had before except it is a different mailing.

Senator MONDALE. A different brochure?

Mr. FRIEDMAN. Yes.

Senator MONDALE. Then you have a document here which says that 50 percent of original price of "Psychological Problems in the Father-Son Relationship" by Harold Abramson, M.D.

Mr. FRIEDMAN. Dr. Harold Abramson is seated here. Do you want him to tell you about the book?

Senator MONDALE. I do not want to know about the book. I want to know about this.

Mr. **Friedman**. The object of printing that book was to educate the general public, and that is why I thought Dr. Abramson should speak.

Senator **Mondale**. This is specially priced at $3. If someone sends this in and pays $3, how much does the foundation get out of that?

Mr. **Friedman**. Dr. Abramson can answer that.

Dr. **Abramson**. I do not recall, but October House sends between $1 and $2 to the foundation.

Senator **Mondale**. Does this go in every letter that goes out?

Dr. **Abramson**. No. This was a special mailing.

Mr. **Friedman**. This was a special mailing sent out, and for the purpose of gaining wider distribution of the book for educational purposes. There is no profit in it. Dr. Abramson does not receive any profit from this book.

Dr. **Abramson**. Well, I do. I think it a great privilege for me to be supported in my research in trying to put psychoanalytical material on a scientific basis. This is a book of verbatim recordings put together at great expense to me, and I am very happy the Asthmatic Children's Foundation has supported my research in that way.

Senator **Mondale**. But none of those proceeds from the sale of the book go to you; is that correct?

Dr. **Abramson**. That is correct.

Senator **Mondale**. The proceeds go to the foundation?

Mr. **Friedman**. They will go to the foundation. We do not yet know how many copies were sold.

Senator **Mondale**. When did this mailing go out?

Mr. **Friedman**. This went out in November or December of 1973. We have not had a report.

Senator **Mondale**. Have you had a report from October House?

Dr. **Abramson**. No. October House deals directly with the foundation. I have nothing to do with it.

Senator **Mondale**. Who writes the solicitation letter?

Mr. **Friedman**. Mr. Giesler.

Senator **Mondale**. Do you approve it?

Mr. **Friedman**. We approve it; yes.

Senator **Mondale**. Who prepared the other materials: the address labels, the directory, the seals, et cetera?

Mr. **Friedman**. That was done by Mr. Giesler with our approval.

Senator **Mondale**. How was Mr. Giesler selected? How did you find Mr. Giesler?

Mr. **Friedman**. In 1962 I had a friend in Chicago who had known him briefly a number of years earlier, and he introduced me to him.

Senator **Mondale**. Had your friend used his services?

Mr. **Friedman**. He had used them in earlier years.

Senator **Mondale**. For what foundation or charity?

Mr. **Friedman**. At that time I think he was working for the City of Hope, but that was many years earlier, and I was looking for somebody who could do this type of mail solicitation, and this friend suggested, why do you not contact V. J. Giesler, and so I did.

Senator **Mondale**. Did you put this out on bids? Did you check other mail solicitation firms?

Mr. **Friedman**. From time to time.

Senator Mondale. How did you know the price he offers is a fair price?

Mr. Friedman. From time to time I have checked with other companies. I have also checked with printing plants, and I want to tell you that my experience has been that the price that he has been able to obtain for us is better than I was able to get from other printing plants and organizations. He buys in such large quantities that the savings that he is able to materialize for us are greater than whatever profit he makes.

Senator Mondale. How many years have you used Giesler?

Mr. Friedman. Since 1962.

Senator Mondale. How much has he raised gross for you since 1962?

Mr. Friedman. Senator, I do not have this figure before me. I was not expecting that question.

Senator Mondale. I want them.

Mr. Karnbad. I do not have those figures handy.

Senator Mondale. You do not?

Mr. Karnbad. No, I am sorry; I do not.

Senator Mondale. Are you the accountant?

Mr. Karnbad. Yes, I am.

Dr. Abramson. May I come in to the rescue of the accountant?

Senator Mondale. I would like someone to come to my rescue.

Dr. Abramson. I understand in a proceeding of this kind if the data are not available, the answers may be made in writing.

Senator Mondale. That is right, but I would like to know how much they have raised. That is not a tough question. We just got very specific questions on occupancy, costs, daily charges from the New York facility. Can you not tell me approximately how much money was collected by Giesler?

Mr. Friedman. Senator, we were asked to send information for the last fiscal year. In your letter you asked for reports for the fiscal year, so we were not prepared to bring this with us.

Senator Mondale. Let us just start with the last fiscal year. How much did they gross in contributions for the last fiscal year?

Mr. Karnbad. A little under $1½ million all told; $1,462,000.

Senator Mondale. Do you have those broken down?

Mr. Karnbad. Yes, I do.

Senator Mondale. Let us take the national gross. How much did they gross?

Mr. Karnbad. $814,300.

Senator Mondale. What did they charge to solicit that amount of money?

Mr. Karnbad. The cost of their solicitations was $600,200 gross.

Senator Mondale. So they collected $814,000 and——

Mr. Karnbad. I am sorry. The cost of the mailing was $571,000 with Mr. Giesler.

Senator Mondale. That is national?

Mr. Karnbad. That is national.

Senator Mondale. Can you give me the figures for New York and Florida for 1973?

Mr. Karnbad. Gross figures in contributions for Florida amounted to $270,500, and the cost of raising the funds amounted to $124,000.

Senator Mondale. I have some figures that our staff has prepared from your own records, and I would like you to respond and see if they are essentially correct, and if not, submit other information. I am talking about national. In 1963 you submitted——

Mr. Friedman. 1963 we do not have.

Mr. Karnbad. I do not have the figures from 1963, sir.

Senator Mondale. We will give you copies of the audited report which you submitted to us so you may look at them.

[Document handed to Mr. Karnbad.]

Senator Mondale. Do you have 1963 there?

Mr. Karnbad. Yes.

Senator Mondale. In 1963 you grossed $869,000, and your direct mailing costs were $663,000.

Mr. Karnbad. Yes, that is correct.

Senator Mondale. In 1964 you grossed $798——

Mr. Friedman. Pardon me. May I interrupt just for a moment? Remember, this was a time when we were just getting started. All of these mailings went to what we called prospective contributors.

When you send mail to prospective contributors, the returns are comparatively small, and the cost is high. Once people are contributors, then the percentage of return is much higher, and the cost drops.

So in 1963 you see this was at a time when we were first getting started, so there were practically no previous contributors, so all of this was derived from mailings to prospective contributors, and so there was no opportunity of remailing to people who had already contributed where the fundraising cost would drop way down.

Senator Mondale. The national fundraising costs were 76 percent.

Mr. Friedman. You mean last year?

Senator Mondale. Yes. You have other years later on that went 80 percent. Now in 1964 it was $798,000. Direct mail costs, $570,000; or 71 percent.

Mr. Friedman. Yes.

Senator Mondale. In 1965, you had a gross of $1.138 million; fundraising costs of $893,000, for fundraising costs of 77 percent.

In 1966, the gross of $1,013,000; fundraising costs of $768,000; for fundraising percentage of 76 percent.

In 1967, the gross was $991,000, a direct mail cost of $794,000, for a fundraising percentage of 80 percent.

In 1968, contributions of $657,000 gross; direct cost of $420,000 for a fundraising percentage of 64.

In 1969, contributions of $813,000; direct mail cost of $597,000, for a fundraising percentage of 74 percent.

Is that correct?

Mr. Karnbad. Yes.

Senator Mondale. In 1970, contributions of $1,010,000; direct mail cost of $810,000, for a fundraising percentage of 80 percent.

In 1971, gross of $911,000; direct mailing cost of $677,000, for a fundraising percentage of 74 percent.

In 1972, you raised $892,000; spent $668,000 raising it, for a fundraising percentage of 75 percent.

In 1973, you grossed $814,000 on your mail solicitations. It cost you $577,000 directly to mail, for a percentage of 71 percent. Are those essentially correct?

Mr. Karnbad. Yes sir.

Senator Mondale. Those are the direct costs that Giesler charged?

Mr. Karnbad. Plus the bank processing. In other words, the bank charges so much per envelope that comes in to the bank.

Senator Mondale. The bank plus Giesler?

Mr. Karnbad. Yes.

Mr. Friedman. May I explain that for a moment. The funds do not come to the Asthmatic Children's office directly. They go to the Barnett Bank or in the case of New York to the National Bank of North America.

The bank opens the envelopes, the bank tellers take out the money; they make the deposit; they mark on the envelope the amount of the contribution, and they turn those over to us.

They charge us in the case of Miami Beach 1½ cents per envelope that they open for us, which is about pretty much their cost.

Senator Mondale. Now the Giesler organization then over the process of 10 years received from the public through mail solicitations $9,019,000.

Mr. Friedman. Incidentally, I might point out that every letter sent out has postage of 1.7 cents, so in figuring the average cost, Uncle Sam received from 10 cents to 10.4 cents—well, 1.7 is roughly 10 percent.

Senator Mondale. I do not see anything in here about contributing to Uncle Sam.

Mr. Friedman. The Post Office Department. That is, Mr. Giesler did not receive that money. That money was paid out for postage.

Senator Mondale. Does Mr. Giesler submit accountings to you as to how much money he makes? Does he tell you what his profit is?

Mr. Friedman. No, but I spoke with him just recently, and I told him that Mr. Katz had asked me that question, and he said, "I can tell you after the taxes my return is 5 percent."

Senator Mondale. Where does he get his lists?

Mr. Friedman. From Metro Mail, which is one of the largest mail list houses, and incidentally also he refines those lists. Mr. Giesler is quite expert at demographics, or whatever you call it, and it is quite a fine art and a science.

It is quite a fine art and a science through computer techniques to refine lists, so that you eliminate the areas of a city that are called—I forget what they call that. The Census Department gives that data.

It is broken down by income, by census tracts; it is broken down by income and by how many people are in the family, by age group and so forth.

By a rather sophisticated technique he and his staff have been able to derive more favorable—that is, to select from the regular lists those who are most apt to possibly respond to a fund raising appeal.

Senator MONDALE. How did you agree on a charge between you and Mr. Geisler? Do you have a writen contract?

Mr. FRIEDMAN. No, we do not have a written contract.

Senator MONDALE. What is the agreement?

Mr. FRIEDMAN. Our agreement is he tells us what he will find necessary to charge, and he has in fact 2 years ago changed printing houses because they wanted more money, and he changed printing houses, and he was able to reduce the costs.

Senator MONDALE. What is your agreement with Mr. Giesler?

Mr. FRIEDMAN. That he does the mailings and at the price that he submits to us, and we have always found that this is a highly competitive price.

Senator MONDALE. In other words, he sets the price and the terms, and you accept them.

Mr. FRIEDMAN. Well, the terms are we pay for the mailings.

Senator MONDALE. Yes, but who sets the terms, Giesler?

Mr. FRIEDMAN. He sets the price.

Senator MONDALE. Have you ever objected to his charge?

Mr. FRIEDMAN. We have never found that his prices were excessive.

Senator MONDALE. So that in effect there is no written contract. Giesler charges what he desires, which you have judged to be competitive?

Mr. FRIEDMAN. That is right.

Senator MONDALE. On what do you base your competitive determination?

Mr. FRIEDMAN. For instance, he was doing his printing with a firm in Peoria, Ill., and when he dropped them, he found their prices were out of line, and he was able to get us a better price.

They came directly to us, and they wanted to do the work directly. Their price that they wanted was more than he was charging.

Senator MONDALE. But I am talking about the mail solicitation services that he performed. You say the cost is competitive.

Mr. FRIEDMAN. Yes.

Senator MONDALE. What other mail solicitation firms have you checked with to say that is correct?

Mr. FRIEDMAN. At one time we did a mailing with Gratian Meyer who is located in Washington, D.C., and his costs were much higher than Giesler.

Senator MONDALE. When was that?

Mr. FRIEDMAN. About 1966, sometime along there.

Senator MONDALE. Have you checked since then to determine?

Mr. FRIEDMAN. Also I checked with this firm in Peoria, Ill.

Senator MONDALE. That is the printing firm.

Mr. FRIEDMAN. They are a printing firm, but they did the printing for Giesler.

Senator MONDALE. They are not in the mail solicitation business?

Mr. FRIEDMAN. No. For that matter, that is not his only business.

Senator MONDALE. So, based upon those two efforts you are convinced you got a competitive price.

Mr. FRIEDMAN. From time to time let me say this, different printers have contacted us, and when we told them what prices he was charging, they said they could not touch it.

Senator Mondale. When you described what charges he was charging, how do you describe it since you do not have a contract?

Mr. Friedman. I do not understand.

Senator Mondale. I mean you must have some way of describing what he is going to pay you.

Mr. Friedman. Yes; sure.

Senator Mondale. How much does he charge you a piece for his service?

Mr. Friedman. The mailing that was sent to prospective contributors this past fall he charged 10 cents each. That included preparing the mailing piece, supplying the lists, doing all the printing, all the letter stuffing, putting it in the mail—everything complete. He charged us 10 cents for each one.

Senator Mondale. So he says, "I will do it this year for 10 cents."

Mr. Friedman. That is right.

Senator Mondale. Is that how it goes?

Mr. Friedman. That is right.

Senator Mondale. That is the contract?

Mr. Friedman. Well, it is not a written contract.

Senator Mondale. That is the understanding?

Mr. Friedman. Yes. Pardon me. That was on the fall mailing. Now, for the Christmas mailing, I think it was something like $84.45 a thousand, and so it was about 8.4 cents per letter, but you see we are supplying the list because they were our contributors. The Christmas mailing went to our previous contributors, and we were supplying the lists, so the price was only $84.85 per thousand.

Senator Mondale. He gets paid for that pretty well, does he not?

Mr. Friedman. Yes, he is paid for it, sure.

Senator Mondale. Does Mr. Giesler contribute anything other than his services? Does he ever contribute to any of these foundations?

Mr. Friedman. He made a contribution last December of $1,000 as an appreciation for the good business he has done.

Senator Mondale. Has he given anything else to the Foundation in the past?

Mr. Friedman. I think there have been several occasions when he has contributed $500 as a donation.

Senator Mondale. Has he contributed anything else other than that directly or indirectly to the Foundation or to any of its offices?

Mr. Friedman. For instance, he has arranged for the data processing services that keep our lists, and he has gone to a great deal of trouble to find the house that would do the best job and would be the most reasonable in their prices, and he has changed those houses several times when he found that their services were inadequate or their prices were too high.

Senator Mondale. Has he provided any other money or services or value to any of these foundations or any of the officers of your organization?

Mr. Friedman. He originates the ideas for the enclosures. It was his idea to use the praying hands seals. He has contributed his know-how, his expertise. As I say, we have found him to be a very fine, honorable and dedicated person.

Senator **Mondale**. Does he give any other money, service or value, directly or indirectly, to the Foundation, its directors or employees?

Mr. **Friedman**. No sir.

Senator **Mondale**. Nothing at all?

Mr. **Friedman**. That is right.

Senator **Mondale**. In addition to the charges that Giesler and the bank make, would it not be fair to say there are other disbursements that are also properly to be allocated against fundraising costs in addition to the ACF National?

For instance, this is August, 1972. That is the year in which you raised $892,000; mailing costs were $668,000 for 75 percent. What other expenses should be properly allocated to funders? What about IBM data processing? That cost $50,000. Is that not really a computer mailing cost for fundraising?

Mr. **Friedman**. This is the keeping of the records of contributors.

Senator **Mondale**. So that would be fairly allocated to fundraising, would it not?

Mr. **Friedman**. Well, it is administrative rather than fundraising. That would be a question of opinion.

Senator **Mondale**. This computer keeps the names of the people who are mailed to and the money that comes in, and the amount they get, and so on.

Mr. **Friedman**. Right, and they eliminate duplications and so forth.

May I interrupt and say incidentally that was $23,161.

Senator **Mondale**. I just picked a random year. Let us take the salary of the executive vice president, $25,000 a year, in August 1972. How much of that would be fairly allocated against fundraising? What percentage of his time is spent involved in the complexities of fundraising?

Mr. **Friedman**. Dr. Peshkin I think had best answer that. I am the executive vice president, so you are referring to me.

Senator **Mondale**. I think you are the best man to answer what percentage of your time you spend on fundraising.

Mr. **Friedman**. I would say maybe a fourth of my time, maybe a half of my time.

Senator **Mondale**. You are paid totally by the national organization, are you not?

Mr. **Friedman**. That is correct.

Senator **Mondale**. And the $25,000 is paid to you say for 25 percent——

Mr. **Friedman**. I would say between 25 and 50 percent of my time.

I also serve as the executive director, unpaid, for the Asthmatic Children's Foundation of Florida. I counsel with the Asthmatic Children's Foundation of New York; I keep the minutes for the Asthmatic Children's Foundation of New York.

I am the assistant secretary of the Asthmatic Children's Foundation of New York; I keep the books for the Asthma Publications Society, and counsel with Dr. Abramson but not very much, because he is the editor, and does not need counselling for editorial policy.

I might say that I run the conferences for the Convalescent Homes and Hospitals for Asthmatic Children, their annual meetings, and that takes I would say about a month out of the year of my time to arrange and send out the proceedings, and actually conduct this annual meeting.

Senator **Mondale**. In the Foundation's Internal Revenue tax return they allocated your whole salary to the expense of raising and collecting money.

Mr. **Friedman**. They did not ask me about my time, about the time I spent.

Senator **Mondale**. Who did they ask?

Mr. **Friedman**. They did not ask anybody.

Senator **Mondale**. Who is "they"?

Mr. **Friedman**. The Internal Revenue Service.

Senator **Mondale**. Who prepared this form?

Mr. **Friedman**. You mean the 990 form?

Senator **Mondale**. Yes.

Mr. **Friedman**. Mr. Karnbad prepared that.

Senator **Mondale**. Maybe he could explain if only say half of your salary was for fundraising, why he reports all of it to the IRS?

Mr. **Karnbad**. Our thought at the time was this expense was attributable to the production of gross income, and that is why it was put in the columns for raising of funds.

Senator **Mondale**. So production of gross income is fundraising?

Mr. **Karnbad**. Yes sir.

Senator **Mondale**. And you put the whole thing down for fundraising?

Mr. **Karnbad**. Yes sir.

Senator **Mondale**. You have $15,000 for other salaries.

Mr. **Friedman**. My office secretary receives a present salary of $160 a week, and that has been gradually built up. She was getting in the previous year $150 a week and so forth.

Then we have part-time help which we employ at $2 an hour for processing of these envelopes that we get from the bank.

Senator **Mondale**. That is fundraising?

Mr. **Friedman**. Yes. But my secretary is administrative as well as fundraising.

Senator **Mondale**. Would it be fair to say that the other salaries and expenses of the office are principally related to fund raising?

Mr. **Friedman**. I would say 50 percent.

Senator **Mondale**. Half of them?

Mr. **Friedman**. Yes.

Senator **Mondale**. Then if you go down the other items, retirement fund, rent, payroll, taxes, public education, telephone and telegraph, legal, those you would say roughly half should be fairly allocated to fundraising on the grounds of half of the work of the office is fundraising and half something else?

Mr. **Friedman**. I suppose so.

Senator **Mondale**. Now, what about the bank charges?

Mr. **Friedman**. Let me explain. The bank charges us——

Mr. **Karnbad**. If I may just explain. The bank charges represent activity in the account. They charge so much for the number of items deposited and number of checks drawn. These are bank charges.

Senator Mondale. But that is money that comes in from fundraising?

Mr. Karnbad Yes.

Senator Mondale. So in a sense a good share of that should be fundraising expenses, receiving and handling money? The money goes to the bank; it does not care for the children, does it?

Mr. Karnbad. No.

Senator Mondale. So what does it go for, fundraising? Would that be fair?

Mr. Karnbad. I think it is just a matter—I would assume when we say fundraising I think of Mr. Giesler as the cost of raising funds. I would call this overhead.

Senator Mondale. Did you prepare these forms?

Mr. Karnbad. Yes.

Senator Mondale. When you prepared the forms, you listed the officers' salaries and wages, taxes, rents, miscellaneous expenses, for 1972 under the heading of expenses of raising and collecting.

What is the difference?

Mr. Karnbad. I guess it was poor judgment on my part then. I should have allocated it between raising principle.

Senator Mondale. Let me tell you what I am trying to get at. We have taken your own submissions to the Internal Revenue Service, and how you allocated expenses, and we have added to the cost of direct mail solicitation which runs between 64 percent and 80 percent per year, an additional amount for nonprogram expenses.

These are expenses that do not go to help the children but go for something else, and we have found that in the following years if you do that, that the nonprogram percentage of money raised is 85 percent in 1963; 81 percent in 1964; 86 percent in 1965; 88 percent in 1966; 90 percent in 1967; 74 percent in 1968; 82 percent in 1969; 89 percent in 1970; 84 percent in 1971; and 90 percent in 1971; and 84 percent in 1973.

I will be very frank about this. This is what bothers me about what may be a perfectly well meaning organization.

People all over this country are getting this kind of letter asking them to contribute to a very desirable objective, and from what we can tell, the medical side is sophisticated. Believe me I am sure that most of the money they are contributing will not help the children.

In fact, according to your own records, in the best year, only 26 cents out of a dollar actually got to the children, and in most years 15 cents, and in a couple of years only a dime out of a dollar got to those children.

From the literature it is clear never once were these contributors told that virtually none of the money would get to the children. How do you respond to that?

You must have discussed this privately over the years.

Mr. Friedman. In every letter, every solicitation it states some place at the bottom or some place in the letter, that part of the expense of this mailing—do you have it there?

Senator Mondale. We will have this brought to you.

Mr. **Friedman**. I do not know whether it is on the letter or the sticker.

[Letter handed to Mr. Friedman.]

Mr. **Friedman**. On the back of the name sticker card it says: A portion of your contribution to the Asthmatic Children's Foundation covers the cost of these labels and materials sent to you.

Senator **Mondale**. What do you suppose would happen if you said instead, 85 percent of the money you contribute would go for purposes other than the children? How much money would come in?

Mr. **Friedman**. This is something I cannot answer.

Senator **Mondale**. What would you just guess. Do you think it would just come pouring in?

Mr. **Friedman**. I agree there would be a reticence. By the same token, if they were told that 35 percent of your dollar was used for fundraising purposes, they might have the same reservations. If they were told 25 percent, maybe not the same, but if they were told that 25 percent was the cost of fundraising, there would still be a reticence because I think we all like to have the feeling that every dollar we give to charity, 100 cents of that dollar goes to the cause we want to support.

Senator **Mondale**. And it is your judgment that people should not be told the real facts lest they make the wrong judgment, and that you will decide what they should be told? Is that your position?

Mr. **Friedman**. Sir, we are only one——

Senator **Mondale**. But you are the one here today.

Mr. **Friedman** [continuing]. Of many hundreds of foundations. I do not know—I can be corrected—of one single organization in the United States that states the actual cost of raising funds, and I will say this, that some organizations like community funds, maybe they do not advertise it but release such information—if you went over it with the same fine toothcomb as you are going over our returns, you would find there is some misrepresentation.

Senator **Mondale**. I agree with you that most charities—maybe none of them—tell the contributors how much it costs to raise money.

But I will say two things. I do not think most of them take most of the money as your does so that 85 and sometimes 90 percent of the money goes for something other than the purpose for which it is contributed.

Second, it seems to me that is an argument for telling people rather than trying to hide behind the "all-do-it" argument. I would like to say I think there is a big difference between say 25 percent and 90 percent of fundraising costs.

Mr. **Friedman**. Sir, I agree with with.

Senator **Mondale**. Precisely 65 percent, as a matter of fact.

Mr. **Friedman**. I might say this, however, as a matter of fact. This method of fundraising by mailings was the only means that Dr. Peshkin found, Dr. Abramson and others found, by which the funds could be raised to create and maintain these residential treatment centers, and this is the reason why it was done.

If there were less expensive means of raising the funds, if for instance governments were to supply the funds to create and maintain residential treatment centers for severely chronic asthmatic children, there would be no need for this.

Senator MONDALE. You see I would not object to that if you told the public the basis on which you were raising the money; that there was a desperate need, and I know that asthmatic children desperately need this help, and the only way you can raise it is through a device that consumes 85 to 90 percent of the raising of it.

But it is my personal belief the reason the contributors are not told those figures is that—we all know perfectly well the average contributor would never give. That would be the end of the program.

Mr. FRIEDMAN. I might say that in New York and in Florida the fundraising costs are lower. The fundraising costs are lower than 50 percent.

Senator MONDALE. Our figures support what you have just said. They show fund-raising costs in New York over this same period averaging 41 percent. We have a table ranging from 33 to I think the highest of 46 percent; and our figures in Florida show the same thing. Is that correct?

Mr. FRIEDMAN. Yes. I might say this. Florida and New York happen to be two States where people are more generous than on the average, than in other States of the Union.

Senator MONDALE. You have never tried Minnesota. [Laughter.]

It is my understanding that an organization engaged in your type of fundraising is not permitted to solicit in New York State unless the fundraising costs are less than 50 percent of the funds raised.

Are you aware of this requirement?

Mr. FRIEDMAN. Yes.

Senator MONDALE. According to our records the fundraising has been costing less than 50 percent of what you have been raising; is that correct, the fundraising of ACF's?

Mr. FRIEDMAN. Yes.

Senator MONDALE. Among the invoices and other documents you have brought today here is an invoice addressed to the Asthmatic Children's Foundation from the Giesler Co. dated October 1972, in the amount of $44,000 plus. It is my understanding that this invoice was paid by the Asthmatic Children's Foundation in January 1973, with check No. 3269; is that correct?

Mr. FRIEDMAN. I do not remember offhand. I would have to look that up.

Senator MONDALE. Do we have the materials for them to look at? Did you bring the invoices?

Mr. KARNBAD. Yes.

Senator MONDALE. Could you check that check number to see whether that is accurate?

Mr. KARNBAD. Now, sir, or later?

Senator MONDALE. Yes, I want to look at it. It should show in the ledger, should it not? check No. 3269, invoice dated October 16, 1972, addressed to the Asthmatic National.

Mr. FRIEDMAN. Yes, sir.

Senator MFNDALE. Could we take a look at that invoice.

[Invoice handed to Senator Mondale.]

Senator MONDALE. This invoice says 870,000 mailed, NY Code NCF complete. What does that mean?

Mr. FRIEDMAN. That means New York.

Senator **Mondale**. This means for mailings in New York.

Mr. **Friedman**. The Asthmatic Children's Foundation National subsidized that mailing. That was the mailing to prospective contributors.

Senator **Mondale**. Would that be in New York?

Mr. **Friedman**. Yes.

Senator **Mondale**. That was for mailing in New York?

Mr. **Friedman**. That is right.

Senator **Mondale**. And Giesler sent them $44,000?

Mr. **Friedman**. Pardon me. Who sent $44,000?

Senator **Mondale**. It was the other way around. The way I understand it—correct me—what happened here is that Giesler conducted the solicitation in New York for the New York foundation but charged the national foundation for doing so.

Mr. **Friedman**. For part of the cost.

Senator **Mondale**. For $44,000.

Mr. **Friedman**. At our request.

Senator **Mondale**. Does that not indicate then this solicitation was done by the ACF of New York and why was the bill paid by ACF National?

Mr. **Friedman**. As a contribution to the ACF of New York from the Asthmatic Children's Foundation National.

Senator **Mondale**. Do you usually make contributions in the name of an invoice for 870,000 pieces mailed, or is this not a direct cost of raising money in New York?

Mr. **Friedman**. You could classify it that way.

Senator **Mondale**. Did ACF of New York keep the contributions raised by the solicitation that was paid by ACF National?

Mr. **Friedman**. Yes.

Senator **Mondale**. Do the audit reports or IRS returns of ACF National state that this organization made a $44,000 grant to the ACF of New York?

Mr. **Friedman**. No.

Senator **Mondale**. Do the audit reports or IRS returns or reports to the State of New York indicate that fundraising costs of ACF of New York were actually $44,000 more than what the books and invoices indicate?

Mr. **Friedman**. Probably not.

Senator **Mondale**. Is it not true then that if the $44,000 were added to the fundraising costs of your New York operation, the last reporting period that they had costs would exceed 50 percent and be in violation of the laws of the State of New York?

Mr. **Friedman**. May I point out that the postage on all the mailings into the State of New York during that fiscal year, the total mailings, was 1,980,101 letters sent to the State of New York. The postage on those mailings was 1.7 cents: $33,661.72.

Senator **Mondale**. But the State of New York has a ceiling of 50 percent. In other words, they say you cannot raise money in New York if the cost of raising it exceeds 50 percent. We all agree that is what the law says.

If this $44,000 were a cost to raise money in New York and were added to the proceeds of the money raised there, the total would exceed 50 percent, would it not?

Mr. **Karnbad.** Yes, it would.

Mr. **Friedman.** By a small amount.

Senator **Mondale.** It would exceed 50 percent?

Mr. **Friedman.** It would exceed slightly.

Senator **Mondale.** Is that the reason that we had this unusual billing arrangement?

Mr. **Friedman.** In anticipation that the total income—this was to prospective contributors—might bring it above 50 percent, we, the national organization, assisted the Asthmatic Children's Foundation of New York by paying that portion of the mailing.

Senator **Mondale.** And if you had not, it would have violated the law?

Mr. **Friedman.** As it turned out, it would have been slightly above 50 percent in cost.

Senator **Mondale.** So that the fundraising costs, although they exceeded 50 percent in New York were made to comply with the law by transferring money from one contributor group around the country to New York to bring it under the 50 percent?

Mr. **Friedman.** You might say that.

Senator **Mondale.** Is that the reason this was done?

Mr. **Friedman.** Yes.

Senator **Mondale.** Did you advise the New York authorities of that fact?

Mr. **Friedman.** No.

Senator **Mondale.** What is left of State regulatory laws if you can do this?

Mr. **Friedman.** Sir, I do not know what other organizations do so I do not know what means other organizations may have of in some way qualifying under the State regulations by reducing their fundraising costs.

I do not know what they may do. We did it in this particular case in order to assist you might say our sister corporation.

Senator **Mondale.** Have you done this in the past in New York?

Mr. **Friedman.** Not very often.

Senator **Mondale.** Could you give us the invoices in the years in which this was done?

Mr. **Friedman.** All we have is last year's.

Senator **Mondale.** I mean for the record.

For 1971 we have an invoice for $44,121, the same New York sticker label. Could that be for the same reason?

Mr. **Friedman.** What is the code name on that?

Senator **Mondale.** NY-X71.

Mr. **Friedman.** Actually as I say, as Dr. Peshkin just pointed out to me, this is in the nature of a grant, but we have not specified as such.

Senator **Mondale.** You surely have not.

Mr. **Friedman.** No, that is right.

Senator **Mondale.** Did you take it as a grant taxwise?

Mr. **Friedman.** We are not taxable.

Senator **Mondale.** You would disclose it in your IRS returns?

Mr. **Karnbad.** If it were an outright grant, yes.

Senator **Mondale.** And it is not disclosed.

Mr. **Karnbad.** No, it is not.

Senator MONDALE. It is disclosed as a bill paid to the State of New York for fundraising.

Mr. FRIEDMAN. On the national basis.

Senator MONDALE. That is correct.

I will have some specific questions that I may submit to you in writing, and I want you to give me the other years if there were any in which money was sent to the State of New York for bringing them under the fundraising laws.

I must say I listen to this with very mixed emotions. The work that you are doing I am told is outstanding and much needed. You are in a pioneering field, you are dealing with children who desperately need it, some of whom may die without it, and we have checked, and we understand you are very competent.

I am not going to approve of everything because I just do not know. I just mean by everything we can tell you have some very fine medical people doing their best job, and yet it seems to me that in your understandable interest to do something about this heartbreaking human problem you have used a fundraising technique which has absorbed costs which are fantastic.

If the public had known when you solicited money for this purpose 80 or 90 percent would go for purposes other than helping those children, I do not believe they would have contributed. They would have wanted another way of doing it where most of their money would have gotten to the purpose they all wanted it used for.

Mr. FRIEDMAN. This $44,000 you are referring to went to New York where it did help children.

Senator MONDALE. It helped them. In other words, the citizens of the State of New York, in order to provide protection to their public from exactly what we are talking about, struck an arbitrary line. I can just hear the debate in the legislature. When is enough enough?

So they said when half of it is taken for purposes other than the services the money is being raised for, when more than that is being taken, you cannot do it in New York.

So through some gift arrangements here you have said, Well, whenever that happens in New York, we will just send some money in from the national to bring it in under the 50-percent figure. That is what happened.

So that insofar as the Asthmatic Foundation is concerned, the State law is a nullity, and I suppose you can defend on the ground some other contributor paid the cost, but I do not want to upbraid you.

I think this was probably done in good faith, but the net result of this is that I think the public probably would want some new rules—I notice in your testimony you suggested the need for new rules—which will do many, many things: full disclosure to the contributors so that when you get a piece of mail it will not just say a portion; it will say maybe 80 percent.

I cannot accept the notion the citizen should not be told where his money is going. Second, it seems to me we may need some kind of adequate national office to receive these reports and check on the adequacy of them. There may be other things we need to do.

The Better Business Bureaus suggested some protection. I am not ready to say what in my opinion might be the right thing but this matter is a very disturbing matter to me, and I think to the public.

There are a few other questions I want to ask here. One of the expenses of the Asthma Publications Society is a monthly payment of $561 to Jack Resnick and Sons. Could you explain that payment to me?

Mr. **Karnbad.** Yes.

Mr. **Friedman.** That is for office rent and maintenance.

Senator **Mondale.** Another expense of this publications society is a monthly payment of $217 to Laura Meyer. Would you explain that.

Mr. **Friedman.** Yes. Laura Meyer is the secretary of the Asthma Publications Society and assists Dr. Abramson as the editor of the Journal of Asthma Research.

Senator **Mondale.** One of the expenses of the AFC National is a key man insurance. Who is the beneficiary of that policy?

Mr. **Friedman.** The Asthmatic Children's Foundation. That is on my life.

Senator **Mondale.** How much has been funded in that account?

Mr. **Friedman.** It is a $100,000 policy.

Senator **Mondale.** Is it fully funded?

Mr. **Friedman.** Sir?

Senator **Mondale.** Is it fully funded? Is there $100,000 fully funded?

Mr. **Friedman.** What we have been doing, in order to keep down the premium, we have been borrowing against the premium so the premium runs now about $2,000 something a year, and it depreciates the face value of the policy. But in the case of my death, the Asthmatic Children's Foundation National will receive these funds.

Senator **Mondale.** This borrowing is for the foundation?

Mr. **Friedman.** It is for the foundation, yes.

Senator **Mondale.** It is not for you?

Mr. **Friedman.** Oh, no.

Senator **Mondale.** In your opening statement you indicated that you had no professional fundraisers, and I assume you do not consider Geisler a professional fundraiser?

Dr. **Abramson.** My opening statement was a report of the foundation, and I regarded him——

Senator **Mondale.** Right.

Dr. **Abramson.** Knowing nothing about fundraising, somebody did the printing and mailing. I would not call him a fundraiser in the sense that someone is hired to raise funds, per se, which many foundations have.

As a matter of fact, I have a patient who is looking for a job in fundraising, which would not be involved.

That is the strategy of raising funds, it is different from Mr. Geisler's function, but I am not authorized——

Senator **Mondale.** But, in any event, you have not thought of him as a fundraiser?

Dr. **Abramson.** I personally have not, but then, as I say, I am probably not an authority on that level.

Senator **Mondale**. Some of the States, as you know, require you to answer specific inquiries, and do you have a professional fundraiser, as I understand it, your answer is no.

Mr. **Karnbad**. New York State requires that, and my answer is no.

Senator **Mondale**. Have you checked with that office, if they have considered someone who collects 9—some .9 million in 10 years of fundraising, whether they would agree with you that that is not a professional raiser?

Mr. **Karnbad**. In my report I indicated the cost of our mail appeals, and I have indicated the cost on each.

Senator **Mondale**. So, on the face of it, it shows how it is raised?

Mr. **Karnbad**. Yes, and they have never questioned me.

Senator **Mondale**. You are the auditor?

Mr. **Karnbad**. Yes, sir.

Senator **Mondale**. Do you check with Mr. Geisler that most of the money is coming through the Geisler letter?

Do you check how much he pays for paper?

How much he pays for these extras?

How much he actually collects?

Do you check that?

Mr. **Karnbad**. No, sir, I do not. My function is actually, at the end of the year, to prepare the financial statements and the tax returns and to go over the books and records for the foundations that are submitted to me by Mr. Friedman.

Senator **Mondale**. Yes. So, basically, what you get, I gather, is a quotation, so much a piece?

Mr. **Friedman**. That is right.

Senator **Mondale**. For example, this New York thing says 54 cents apiece, I mean——

Mr. **Friedman**. 5.4.

Senator **Mondale**. 5.4 cents apiece. That is all you get?

Mr. **Friedman**. That is right.

Senator **Mondale**. You do not go behind those figures to see whether that is a good price, what the profit is or anything?

Mr. **Friedman**. I have always had the impression that his prices were quite reasonable.

I know he has lowered his prices whenever it was possible.

I know that he has increased his prices only when he could not help it, and I have nothing more to say, but if you buy a suit of clothes in the store——

Senator **Mondale**. Sort of unit funded?

Mr. **Friedman**. I do not ask him, the merchant in the store how much he paid for it, how much cloth it took to make it.

Senator **Mondale**. I do not pay 9.9 million dollars for a suit, either.

In other words, this is the big problem, it takes millions of dollars of public money.

Have you ever checked on doing it yourself?

Could you do it if you did it yourself?

Mr. **Friedman**. I have checked with printers, as I mentioned before, and in every case where we have told them what we are paying, they said they could not—they could not do it for any better price.

Senator **Mondale**. I have got a reason for asking all this.

We had a major scandal in Minnesota, and the heart of the scandal was, the mail solicitation aside, it was a loaded cost. There were kickbacks.

I mean, it apparently looked good from their official books, but when you really looked into those records, that was where the money was going, millions of dollars.

Mr. **Friedman**. But, sir, there is no kickbacks here.

Senator **Mondale**. I understand that, but even—I am not even talking about that.

In one sense it was simply in the sense that the medical side of the Sister Kenny Institute was superb.

It was the fundraising where the trouble was, and there was all kinds of non-arm-length contracts—relationships in there that permitted mail-order firms, which was also in Chicago, to load these costs and profit fantastically at the expense of people with polio.

Well, all right now, you say raise some money in the District of Columbia and Massachusetts.

Mr. **Friedman**. Very small.

Senator **Mondale**. Have you registered in those communities?

Mr. **Friedman**. No, because the amount—the amount raised is insignificant.

Senator **Mondale**. Would you submit for the record the amount that was raised?

Mr. **Friedman**. I can check that.

Senator **Mondale**. Will you send that to us?

Thank you very much.

Dr. **Peshkin**. May I ask, do we come back?

Dr. **Abramson**. Dr. Peshkin asked were we supposed to return.

Senator **Mondale**. We may have some questions that we will send to you by mail, but you do not have to return personally unless you hear from us.

Dr. **Abramson**. Senator, may I have a last word?

Senator **Mondale**. Go ahead.

Dr. **Abramson**. First of all, I want to thank you very much for your tentative approval or perhaps more so of our medical efforts.

And, in thinking about the way in which the fundraising people have raised funds, I thought of this, that a man is entitled to defend his own life.

A doctor is geared and brought up and some of those people are involved in saving lives—to save the lives of patients, and I feel that, through all of this, this psychological element is lost, that the staff wants to save the lives of children that will die.

You may call this crocodile tears, but if you have seen children die, and not know why, perhaps you would understand the emotional problems involved.

Thank you, Senator.

Senator **Mondale**. Well, that is what bothers me about it today.

I know that you are trying your best, and we have reviewed both facilities.

Our expert feels that the costs are high per person, but those, I suppose, are judgmental questions, and that some of the treatments are controversial in the medical field, but that is not unique, either.

And so I am not trying to second-guess the medical profession here, and I think you know my record in the Senate.

I have been pro health research strongly.

The reason for this hearing is we want the money that the public contributes to children to go to children, and not somewhere else.

That is all we are talking about.

Dr. **Abramson**. Incidentally, this is off the record——

Senator **Mondale**. All right. Nobody listen, then.

Dr. **Abramson**. I feel the staff's judgment of people's attitude towards giving money is very complicated.

If a person has an asthmatic child in his family, he will say, "If you help with 5 percent of this money" he might give it.

One other thing I think this is a very complicated psychological thing and I think you would find a distribution, if you know the Bell-shaped curve, how you measure people, and on the average I believe that you are right, but in general you might find somebody at the Bell-shaped curve would not care as long as you saved one child.

Senator **Mondale**. You see, I really think there is too much of this going on in American society.

We have a President who said we should treat the people as children, you let them know too much and they will not know how to handle these problems, and you use executive privilege—they do not hear too much.

You even treat the Congress bombing Cambodia, and they do not tell you.

They might not react the way Big Brother would like, and I think people are sick of that.

They say that this is their money. They have got a right to know and make these judgments.

They are not under guardianship.

They have a right as adults to demand, in a free society, they be told what they need to know to make responsible judgments, and I think that is the heart of the problem we are dealing with.

Dr. **Peshkin**. Senator Mondale, I feel I have not said enough.

I would like to emphasize that the people who have a right to know the mortality rate in children with ordinary asthma. To begin with the incidence of ordinary asthma in children who respond favorably to the accepted methods of allergy practice is 92 percent. The incidence of deaths from asthma in this group of asthmatic children is practically nil. However, in the remaining 8 percent of the asthmatic children suffer from intractable asthma which failed to respond to the usual treatment. The mortality rate in this group of intractably asthmatic children is alarmingly high. The public has a right to know about this group of asthmatic children and what is being done to save them from dying. The first step toward recovery from intractable asthma is—"Parentectomy"—removal of the child from his own home for 1 year or more to a residential asthma center. This program of treatment is now well established and understood.

We have statistics. We have figures, and I have published autopsy findings of children who died in the residential research center.

This is a sad and painful problem and I would quote the Old Testament "if you save one life you save the world."

Senator MONDALE. Thank you.

I would like to point out that ACF is one of a number of children's charities under study by the subcommittee, and future hearings will be scheduled to hear from other groups.

We will resume tomorrow morning at 9:30 to receive testimony from the IRS and New York State officials on ACF.

Thank you very much.

[Whereupon, at 12:30 p.m., the subcommittee was recessed, to reconvene at 9:30 a.m., Wednesday, February 6, 1974.]

CHILDREN'S CHARITIES, 1974

WEDNESDAY, FEBRUARY 6, 1974

U.S. Senate,
Subcommittee on Children and Youth
of the Committee on Labor and Public Welfare,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9:30 a.m. in room 4200, New Senate Office Building, Senator Walter F. Mondale, subcommittee chairman, presiding.

Present: Senator Mondale.

Committee staff members present: Ellen Hoffman and A. Sidney Johnson III, professional staff members, and Harvey Katz, consultant.

Senator Mondale. Our first witness this morning is Philip J. Sgarlata, director, New York State Charity Registration Bureau.

We are very pleased to have you with us today. You were here yesterday, I believe, during the testimony.

STATEMENT OF PHILIP J. SGARLATA, DIRECTOR, NEW YORK STATE CHARITY REGISTRATION BUREAU

Mr. Sgarlata. Yes. I think you have my prepared text.

Senator Mondale. The complete text of your prepared statement will appear in the record at the conclusion of your testimony.

Mr. Sgarlata. I would like to expand a bit on the financial information that the Asthmatic Children's Foundation of New York has sent to us. From the information they have sent to us from the years 1964 through 1972, it would appear that about 12 percent of the total income received has gone to program services. However, it should be pointed out at this time that in 1967 the organization got the authority to operate a treatment center.

Since that time, they apparently have been investing their funds in the land, building, and equipment, and as such about $900,000 of these funds is for that purpose.

In 1972, and that is the first year that the treatment center did open, their program services have gone up about 33 percent.

In 1973, while the report has not yet been accepted because there are so many changes that have to be made and some clarification, it would appear that their program services have gone up to about 62 to 63 percent.

In view of the fact that the treatment center has opened, about $2 out of every $3 in New York State have gone into program services, and that is in line. About 52 percent of their previous funds have gone into the building, as I first said.

I would also like to point out that their fundraising costs from 1964 to 1972 have been about 32 percent, as they have shown on their reports to us.

Senator **Mondale**. That is fundraising within the State of New York?

Mr. **Sgarlata**. Right. Only in the State of New York. However, I did note there was some testimony as of yesterday——

Senator **Mondale**. Apparently in a few years they found they were exceeding 50 percent in fundraising, whereupon the National Foundation would take money contributed by others, send it into New York, at what they call the grant recovery cost, which was under 50 percent because of that grant.

Mr. **Sgarlata**. In the report they have submitted to us, they did not show grants coming from the National. Apparently from what they said yesterday, they did not show it at all on our books, and our organization had no way of checking this.

Senator **Mondale**. I understand that. But it was my impression, though they talked a little bit about grants, that really what it was was a payment to their charity in New York for the purpose of bringing fundraising costs low enough so that they complied with the New York law.

Mr. **Sgarlata**. This is course is something we will have to go back and go into with them. I am not prepared at this time to see if the percentage did actually go over 50 percent, that they did include the sums of money. I do not have all the information here so I really cannot tell at this point.

However, if this did occur, they would have to show it on their books in New York either as a grant or expenditure.

Senator **Mondale**. How does your law work? If you can get a grant like that from another charity, does that bring you into compliance?

Mr. **Sgarlata**. Yes. I think the grants are from other charities. In this case, from the way the testimony came out, it did not appear to be a grant at all. It appeared they paid expenses to subvert our law, which they said that they did. I suppose this is sort of saying you are too tough for us so we are going to do it another way. I do not know.

Senator **Mondale**. It appears to me that New York has figured out a good way of getting more money in their State.

Mr. **Sgarlata**. In our State we have over 5,000 of these organizations that have to come to our office and file with us, and they raise tremendous amounts of money. We attempt to keep close tabs. We have field audits and desk audits. If there is anything out of line, we do contact the firm and we do schedule a field audit at that time.

Senator **Mondale**. Who pays for the field audit?

Mr. **Sgarlata**. The field audit is paid for by State funds.

Senator **Mondale**. How large a staff do you have?

Mr. **Sgarlata**. We have approximately 15 people in our State. Our bureau is a small part of a larger office.

Senator **Mondale**. Does New York have one of the best laws in your opinion dealing with this problem?

Mr. **Sgarlata**. Of course I am prejudiced on this point. I believe that we do have a good law. It is the first law I think in the land on this subject or close to it. The form that has been used by our office has been held as one of the best, and that should be accepted as a model by other States. In fact, the man who made that statement is sitting here now from Price Waterhouse, Mr. Gross. He made that statement. We feel quite proud of that fact.

Senator **Mondale**. So in New York if you wanted to raise money for a children's charity or any charity, you must register with your office?

Mr. **Sgarlata**. Right, assuming that certain amounts are met, if it is over $10,000 and not exempt under certain exemptions, like education.

Senator **Mondale**. Assuming you are not an exempt charity, you have to register with your office and you file an annual audit?

Mr. **Sgarlata**. Yes, every year. If it is from $10,000 to $25,000, it is called a short form, which is signed just by the officers of the organization. If it is over $25,000, the report also has to be signed by——

Senator **Mondale**. Certified?

Mr. **Sgarlata**. Yes.

Senator **Mondale**. As these audits come in, your staff reviews them?

Mr. **Sgarlata**. Each and every one of them.

Senator **Mondale**. If something looks funny, you can sometimes do an entirely new audit?

Mr. **Sgarlata**. Oh, yes. For example, in the past month we have already had probably 12 field audits.

Senator **Mondale**. In addition to that you have a requirement that the fund raising costs may not exceed 50 percent of the amount collected?

Mr. **Sgarlata**. On mail.

Senator **Mondale**. That is just on mail?

Mr. **Sgarlata**. Solicitations.

Senator **Mondale**. How do you arrive at that 50 percent figure? Is that legislatively decreed figure?

Mr. **Sgarlata**. Yes.

Senator **Mondale**. How did they arrive at 50 percent?

Mr. **Sgarlata**. Of course the law goes back to 1954 and I really do not know how they arrived at it at that time. I was not around.

Senator **Mondale**. OK. It is my impression that many advertisements for charities include pictures and appeals for funds based upon children.

Mr. SGARLATA. That is correct.

Senator MONDALE. One cannot pick up a newspaper or turn on the television without being impressed by the number of times you are asked to help children, charitable giving. Have you ever looked into the question of whether children are used disproportionately in the sense that not that much money really goes to children? Suppose—and I do not know, I will just pick a disease—asthma—suppose you have a pitch for asthmatic children, but in fact most of it goes to adults. Let us take that hypothetical situation. Have you ever seen this sort of thing?

Mr. SGARLATA. On their statement to us they tell us their purpose as it appears on their corporate charter. It is our job of course to see that these funds are for these purposes.

Senator MONDALE. For the purposes that they declare?

Mr. SGARLATA. Yes, in the charter.

Senator MONDALE. But the purpose they are advertising for may imply different purpose than the one they express in their charter.

Mr. SGARLATA. In that case the matter is turned over to the Attorney General's office, the Charity Fraud Bureau.

Senator MONDALE. In other words, if they are raising money for a purpose different than they are spending for, even if the purpose is valid, that is a question of whether or not they are misrepresenting their fundraising?

Mr. SGARLATA. Right. That would be turned over to the Attorney General's office.

Senator MONDALE. Attorney General Lefkowitz for many years has been very active in this field?

Mr. SGARLATA. Yes, he has.

Senator MONDALE. Does he have a full time staff dealing with this?

Mr. SGARLATA. Yes, in New York City, a full time staff.

Senator MONDALE. Are there other sources of information that you look to in addition to the audits they submitted to you or such additional audits that you might make for your information?

Mr. SGARLATA. I do not know what you mean.

Senator MONDALE. Do you turn to Better Business Bureaus, IRS and so on?

Mr. SGARLATA. Yes, but as it turns out we seem to supply them with information. We give them the financial reports.

Senator MONDALE. Usually goes in the other direction?

Mr. SGARLATA. But they do give us information like, for example, if there is a new pitch on television, and they file in your office or something of this matter.

Senator MONDALE. Suppose you are a prospective contributor in New York City and you get a piece of mail on, say, Indian children, can you call the New York State charities office and ask about this charity?

Mr. SGARLATA. Yes. You can call us and you can also get a copy of their financial statement that they file. They are of public record.

Now our purpose is not to say this is a good charity or worthy cause, but it is that we give them the facts and figures and the people have to make their own decision as to whether they want to contribute to it. But there is a public document they can get.

Senator **MONDALE**. What would you think of a law that required that sort of information on the mail solicitation letter, so when you receive it it would say, "last year we spent 65 percent on fundraising costs or nonprogram costs," so that the contributor would know about how much money will go for charity?

Mr. **SGARLATA**. I would have no objection to such a law.

Senator **MONDALE**. That is really what they want to know, is it not? Occasionally you have got a fraudulent charity, but you cannot depend on their records anyway. You were here yesterday when they said, well, we told the contributors how much was being used. They read it to me, "a portion of this goes for fundraising costs." Of course the portion was 75 percent or 80 percent depending on the year. It was pretty clear to me that the reason, among others, that they did not say how much it actually cost, was they knew no one would contribute.

Mr. **SGARLATA**. Yes, I would agree with that statement. But I have no objection to such a law. I think it might serve a good purpose as well.

I do not believe good charities would object to such a requirement either because every dollar that goes to a bad charity is taken away from a good charity. So your good charities I imagine have no objection.

Senator **MONDALE**. They should be in favor of that?

Mr. **SGARLATA**. I would think so.

Senator **MONDALE**. Were you aware that the Asthmatic Foundation of New York was part of a larger enterprise, five or six organizations?

Mr. **SGARLATA**. I knew they had an organization in Florida, but I did not know about the one in Illinois or the one that was formed by his wife, I forgot the name of it now, that was formed by the doctor's wife.

Senator **MONDALE**. Did you know that there were two organizations in Florida?

Mr. **SGARLATA**. I knew that there was the one that had the clinic and the one that was soliciting funds.

Senator **MONDALE**. So that would be National?

Mr. **SGARLATA**. That would be the National, right.

Senator **MONDALE**. Were you aware of their high fundraising costs in their national effort?

Mr. **SGARLATA**. No, I was not, because of course their books are not available to us and we have no way of knowing if they are checking those. We have no authority to go in there.

Senator **MONDALE**. You were unaware as you testified earlier that the national organization was paying fundraising bills for New York——

Mr. **Sgarlata**. No. I am now.

Senator **Mondale**. Do you have any suggestions as to what you think the Federal Government ought to do by way of legislation to help you and help contributors in this country to insure that the money goes for the purpose intended?

Mr. **Sgarlata**. Well, it is at this point, after hearing some of the testimony, I would like to defer that question and have time to think about it and send you a statement if you wish.

Senator **Mondale**. All right.

Mr. **Sgarlata**. I would like some time to think about it.

Senator **Mondale**. I understand that your office has recently completed a study of the charities registered in New York. What were the results of that study?

Mr. **Sgarlata**. That study of course has been done, not by our office, but in conjunction with our office, and it was done by the office of Price Waterhouse, and that is Mr. Gross who is here.

Senator **Mondale**. Has that been released?

Mr. **Sgarlata**. We have issued it. There is something on it. I can send you that. I do not have it here. I can send you a copy.

Senator **Mondale**. Would you submit that to us for the record?

Mr. **Sgarlata**. Yes.

[The information referred to was not available to the committee for inclusion in the record at the time of printing.]

Senator **Mondale**. What is a good charity soliciting by mail able to raise money for in terms of percentages? Do you have a rule of thumb?

Mr. **Sgarlata**. Well, from the top of my head I can recall it is through that study that was made that the fundraising costs in our State, they averaged about 8, 9, 10 percent. This surprised us all, as a matter of fact, because we actually thought it was higher. It turned out it was 8, 9, 10 percent, which is about the average of fundraising costs.

Senator **Mondale**. You would say 70 percent was pretty high then?

Mr. **Sgarlata**. Oh, yes.

Senator **Mondale**. Do you look into mail order firms, firms that commercially handle this stuff, that prepare it, prepare the pitch and so? Have you ever looked into those operations?

Mr. **Sgarlata**. If these mail order firms are part of a professional fundraising group then yes, those contracts are on record.

Senator **Mondale**. If they are an independent solicitation operation, you do not look at it?

Mr. **Sgarlata**. The only time I would is if the fundraising costs have exceeded 50 percent.

Senator **Mondale**. Have you ever been suspicious about these mail solicitation firms, the ones that do it? I was impressed yesterday that they really had not looked at that company at all they were doing business with. They had not put it out on bid. They said they checked comparative costs and it was competitive, and I asked them what they had done and they really had not—they just trusted them. That is all. Maybe it was valid in this case. Most of the money was going to this firm and the firm was making a lot more money than the children, and would it not make sense if we are going to regulate charities to use this technique to make certain that the funds—well, to make certain that the corporations are ethical and that the costs are kept to a minimum?

Mr. SGARLATA. We are now conducting an investigation of one particular organization that has come in with some pretty high fundraising costs. My first question was: Is there any connection between this company and the so-called charity? That was my first question.

Senator MONDALE. That was my question. Maybe it is just fine, but I have seen instances where it was not.

Mr. SGARLATA. We found in this particular case that there was not any connection, but the fund costs were still high.

Senator MONDALE. According to your study even in New York it would be high compared to the others?

Mr. SGARLATA. Oh, yes.

Senator MONDALE. But one wonders how they can get fundraising costs of 35 percent in New York, while it was running 70 percent in nonregulated States.

Mr. SGARLATA. I think that is your answer, because in New York we do have these regulations and they cannot do it in New York.

Senator MONDALE. Is New York 2½ times more generous, people in New York, than every other State in the Union?

Mr. SGARLATA. Well, I do not know about the figures in the other States of the Union, but they do give in New York.

Senator MONDALE. That question did not occur to me yesterday. How come you can take 70 percent of everything you raise 2 miles from the border of New York and then right across the border you can raise it for 35 percent?

Mr. SGARLATA. Well, I think probably that people in our State do have faith in our law on this subject and that makes a difference, because they know that the program is being watched, they know that it is appropriate, and a law on the books.

They can depend on us.

Senator MONDALE. You have never looked into one of these mail order firms to see what they are doing, their charges?

Mr. SGARLATA. I myself have not, no.

Senator MONDALE. Has your office?

Mr. SGARLATA. I would have to go back and check. After all, it has been there 20 years, and I have not. I really do not know.

Senator MONDALE. Would you find out and let me know?

Mr. SGARLATA. Yes.

Senator MONDALE. Thank you very much.

[The prepared statement of Mr. Sgarlata follows:]

PREPARED STATEMENT OF PHILIP J. SGARLATA

I would like to briefly outline the agency I represent here today. The State Board of Social Welfare is a constitutional citizens board and is over one hundred years old. The Board consists of fifteen members appointed by the Governor and with the consent of the Senate. The Governor also designates a member of the Board as Chairman and, at the present time, Mr. Baldwin Maull is Chairman of the State Board of Social Welfare. The Board is a division of the Executive Department.

The Charities Registration Program is one of the Board's programs. Generally speaking, any charitable organization, except those specifically exempt by law, which intends to solicit contributions from persons in this State or from any governmental agency by any means whatsoever shall, prior to any solicitation, file with the Board upon forms prescribed by it. The exemptions I previously referred to include the following:

a. Corporations organized under the Religious Corporations Law and other religious agencies and organizations operated, supervised or controlled by or in connection with a religious organization.

b. An educational institution.

c. Fraternal, patriotic, social, alumni organizations and historical societies chartered by the New York State Board of Regents when solicitation is confined to that membership.

d. Persons soliciting contributions for the relief of a named person.

e. Any charitable organization that does not receive contributions in excess of ten thousand dollars and does not have a professional fund raiser.

f. Any charitable organization receiving an allocation from an incorporated community chest or united fund and itself does not receive contributions in excess of ten thousand dollars.

g. A local post, camp, chapter, etc. of a veterans' organization.

The above generally lists the exemptions which the law allows. However, for the sake of brevity I have taken the liberty to paraphrase it somewhat. If anyone desires a copy of the statute itself, I will be glad to supply the same.

The New York statute provides that a "professional fund raiser", i.e., any person who for compensation or other consideration solicits contributions for or on behalf of a charitable organization, is required to file and provide a bond in the amount of five thousand dollars. Also, anyone a professional fund raiser employs for compensation (professional solicitor) is also required to register with our program. All contracts entered into by a professional fund raiser and charitable organization are required to be filed with our Bureau ten days after it is made.

In the administration of the Charities Registration Program, the Board's policy has been to canvass non-profit organizations soliciting funds in New York State and to request registration of every such organization unless it can show that it falls within one of the exemptions provided under law. To this end, the Bureau maintains a Kardex file listing all organizations soliciting in New York State and indicating the current registration and reporting status of each listed organization. Information about these organizations is obtained from various sources, including the general public, Better Business Bureaus, Chambers of Commerce and contributors' information agencies, etc.

Unregistered non-profit organizations which appear to fall within the scope of Article 10-A are asked to fill out a questionnaire to explain their status under the law. Upon receipt of the completed questionnaire, staff determines if registration is required. If the organization appears to be required to register, we send the proper registration form. If an exemption is claimed and the Bureau is of the opinion that exemption is not available, the question is taken up by the staff. In the event agreement as to the organization's exempt status cannot be reached, the question is referred to the Attorney General. If the organization does not reply to the Bureau's questionnaire and to a follow-up letter, the matter is then referred to the Attorney General-Charities Frauds Bureau, for action, whose office then communicates with the organization to notify it to comply with the law.

Once it is registered, the organization is required to file a financial report within six months after the close of each fiscal year, whether or not it has solicited funds for that year. Organizations which are required to be registered and which receive contributions in excess of twenty-five thousand dollars during the fiscal year and every charitable organization whose fund-raising functions are not carried on solely by persons who are unpaid for such services, must file a written report to the Board on forms prescribed by it; specifically, Form DSS-497, the long form. This report shall include a financial statement for the fiscal year, setting forth the gross income, expenses and net income of the charitable organization; a balance sheet as of the close of the fiscal year; and a schedule of the activities carried on by the organization in the performance of its purposes and the amounts expended thereon during the fiscal year. Each organization is required to report its expenditures in accordance with standards and classifications of accounts prescribed by the Bureau to effect uniform reporting by organizations having similar activities and programs. The report shall also include a statement of any changes in the information required to be contained in the registration form filed by the organization. The report must be signed by the president, or other authorized officer, and the chief fiscal officer of the organization and shall be accompanied by an opinion signed by an independent public accountant that the financial statement and the balance sheet fairly represent the financial operations and position of the organization. Incidentially, the long form has been hailed as a model by many in the accounting profession and Mr. Mal Gross, a partner in Price Waterhouse, has suggested that it be adapted as a model by other states.

Every registered organization which receive contributions not in excess of twenty-five thousand dollars (ten thousand to twenty-five thousand dollars) during a fiscal year and all of its fund-raising functions are carried on by persons who are unpaid for such services shall file Form DSS-497A (short form). This report shall include a financial statement covering such fiscal year limited to a statement of the organization's gross receipts from contributions, fund-raising expenses, including a separate statement including the cost of any goods, services and admissions supplied as solicitations and the disposition of the net proceeds from such contributions.

The Bureau requires financial reports to reflect accurately the operations of the reporting organizations according to accepted accounting principles in the form established by the Board. If the reports are acceptable, they are placed on file and become a public record. Reports which appear to be incorrect according to the Board's standards are returned to the reporting organizations for correction. Beyond this, the Board does not approve, or disapprove, any organization or indicate whether it is a "worthy cause". The purpose is to give the facts to the public and let the public decide on whether to make a contribution.

The reports and registration statements filed with the Board are public records and the Board furnishes copies of them upon request to any interested party. The registration statements of professional fund raisers and solicitors are also public records, and their contracts with organizations are available to the public.

Normal enforcement of the Charities Registration Program is by referral of cases to the Attorney General. Organizations which appear to be in violation of the law are placed in three categories for referral:

a. Unregistered charitable organizations - possible violators of Article 10-A of the Social Welfare Law.

b. Unregistered charitable organizations (those who should file and have not) - registrations due.

c. Organizations whose registrations have been cancelled for failure to timely file its annual report.

In most of the cases referred in these categories, a communication from the Attorney General's Office is sufficient to obtain compliance with the law or to obtain information on the basis of which case may be closed.

In addition to the above, any violation of our statute, including the making of false statements, may be prosecuted by the Attorney General. The enforcement procedure is specifically set forth in the law.

For the fiscal year ended March 31, 1973, the Board had a total of 5,542 organizations registered. For this period, there were 117 professional fund raisers and 72 professional solicitors registered.

Recently the Board appointed a Public Information Officer, and part of her duties is to advise the public of the availability of the services of this Bureau.

With respect to the Asthmatic Children's Foundation of New York, Inc., our records indicate that the corporation was formed on October 30, 1963, with the following purposes:

a. To support financially the furtherance of educational programs for the general public in asthma and other allergies; for professional persons engaged in the field of care, treatment, rehabilitation and research regarding asthma and other allergic diseases; and for parents and families and others living with the afflicted, with a view to ameliorating these diseases and improving the condition, health and welfare of asthmatic and allergic children and adults.

b. To support, stimulate, encourage and further research in asthma and other allergic diseases.

c. To assist, establish and give financial support to national, regional and local institutions and hospitals for the care, education, rehabilitation and treatment of severely-ill children and adults afflicted with asthma and other allergic diseases.

d. To counsel and cooperate with and to assist organizations established for the purpose of advancing the welfare of asthmatic and other allergic patients in countries outside the United States of America and to help organize and support asthma treatment centers wherever there is an urgent need for such centers throughout the world.

e. To provide financial assistance for the care, treatment, rehabilitation, education and maintenance of needy children and adults suffering with asthma and other allergic diseases.

On July 11, 1967 the corporation received approval to amend its corporate charter and received authority to establish and operate a thirty-bed rehabilitation center for asthmatic children to be located at Cedar Lane, New Castle, New York. This particular program of the corporation is under the supervision of the New York State Department of Health.

With respect to the financial information concerning the corporation, its last accepted annual report (1972) shows the following financial information:

			Percentage of Total Income
Income			
Contributions		$567,395.89	
Program-Related Income		7,465.44	
Other Income		23,813.41	
	Total	$598,674.74	
Expenditures			
Program Services		$200,167.41	33.44
Management & General		1,500.00	.24
Fund Raising		204,187.04	34.11
	Total	$405,854.45	
Excess for the year		$192,820.29	32.21
			100.00

A desk audit of the report pointed out deficiencies in the annual report. For example:

1. A reasonable allocation of the organization's expenditures was not made between "Program Services," "Management and General," and "Fund Raising".

2. Schedules detailing "Operation Expenses," amounting to $93,893.31, and "Printing and Mailing of Mail Appeals," $191,754.95, were not submitted. These expenditures amounted to 70.[illegible]% of the total expenditures reported.

3. Depreciation, in the amount of $34,868.57, was reported as a Program Service expenditure (included in Operation Expenditures), instead of being correctly reported as a fund-balance adjustment.

Because of these deficiencies, the corporation's 1973 annual report was not accepted and was sent back to the corporation for correction. My staff made a further comparison of income and expenses for the years 1970, 1971 and 1972 and the following schedule is the result:

Income	1972	% of T/I	1971	% of T/I	1970	% of T/I
Contributions	$567,395.89		$536,073.49		$475,582.99	
Program Related	7,465.44					
Other Revenue	23,813.41		29,398.61		49,072.01	
Total	$598,674.74		$565,472.10		$524,655.00	
Expenditures						
Program Services	$200,167.41	33.44	$ 55,447.50	9.81	$ 14,499.63	2.76
Mang. & General	1,500.00	.24	2,118.29	.37	1,923.22	.37
Fund Raising	204,187.04	34.11	205,945.48	36.42	219,431.97	41.82
Total	$405,854.45		$263,511.27		$235,854.82	
Excess for Year	$192,820.29	32.21	$301,960.83	53.40	$288,800.18	55.05
		100.00		100.00		100.00

It is interesting to note that the amount allocated to Program Services was in some years an insignificant amount. Therefore, I instructed my staff to make a composite study of the financial reports of the corporation from its inception (1964) to the present (1972) and the following is the result:

Income			% of T/I
Contributions		$3,010,219.24	
Program Related		7,465.44	
Other Income		174,374.15	
	Total	$3,192,058.83	
Expenditures			
Program Services		$ 380,487.75	11.92
Management & General		23,084.48	.72
Fund Raising		1,027,242.55	32.18
	Total	$1,430,814.78	
Excess		$1,761,244.05	55.18
			100.00

Excess, as reported, is represented by the following fund balances:

			Percentage to Total Fund Balance
General Fund		$754,851.00	42.86
Land, Bldg. & Equipment	$977,596.56		
Less - Depreciation	51,203.51	926,393.05	52.60
Donor Restricted Fund		80,000.00	4.54
Total		$1,761,244.05	100.00

A field audit of the books and records of the Foundation has been scheduled for February, 1974.

Senator MONDALE. Our next witness is Mr. Howard M. Schoenfeld, Chief, Procedures Section, Internal Revenue Service, and Mr. Chris Neal, Office of Chief Counsel.

We are very pleased to have you here today. You were present when we heard testimony from the Asthmatic Children's Foundation.

Were all ACF groups mentioned yesterday tax-exempt organizations?

STATEMENT OF HOWARD M. SCHOENFELD, CHIEF, PROCEDURES SECTION, INTERNAL REVENUE SERVICE; ACCOMPANIED BY CHRIS NEAL, OFFICE OF CHIEF COUNSEL

Mr. SCHOENFELD. Yes, sir.

Senator MONDALE. What considerations apply to whether an organization is granted this kind of tax exemption?

Mr. SCHOENFELD. The basic consideration is whether the organization is organized and operated exclusively for charitable purposes.

In order to establish a charitable organization's entitlement to exemption from income tax, it must file appropriate exemption application forms with the Internal Revenue Service, and then an exemption letter is issued to the organization.

Senator MONDALE. After an exemption is granted, what does IRS do to make sure the requirements continue to be met?

Mr. SCHOENFELD. We have an audit program, Senator, which has as its purpose the supervision of these organizations that have received exemption letters; and the purpose of this audit program is to insure compliance with the laws relating to exempt organizations.

Senator MONDALE. How thoroughly do you audit?

Mr. SCHOENFELD. I like to think, Senator, that we make thorough audits in all cases.

Senator MONDALE. Annually?

Mr. SCHOENFELD. No, not necessarily. We only have a fixed audit program with respect to private foundations and certain other organizations, but not with exempt organizations generally.

Senator MONDALE. How often would a charity such as the one we heard yesterday be audited?

Mr. SCHOENFELD. As has already been disclosed to your staff, the returns of that organization have been audited for many years.

Senator MONDALE. Annually?

Mr. SCHOENFELD. Since 1963, Senator.

Senator MONDALE. This particular organization has been audited annually?

Mr. SCHOENFELD. The Asthmatic Children's Foundation in Miami, the National.

Senator MONDALE. That is the single one, the big fund raiser is the one you have been auditing?

Mr. SCHOENFELD. Yes, Senator.

Senator MONDALE. What does an audit consist of? Do you actually go through their books?

Mr. SCHOENFELD. Yes, we do. A revenue agent is assigned to the case and his responsibility is assuring that that organization is operating within the requirements of the laws pertaining to the exemption requirements under which a ruling letter was issued.

Senator MONDALE. Does your audit include review in this case of the operations of the mail order firm?

Mr. SCHOENFELD. No, sir.

Senator MONDALE. If you look at the whole thing, you really have a tax-exempt tail and a hugely profitable dog, do you not?

Mr. SCHOENFELD. Yes. I cannot get into details of the way the examination was conducted, but, generally speaking, a revenue agent would take into account the relationship that the exempt organization would have with third parties, that merely because the relationship exists does not mean that another audit is required.

Senator MONDALE. I am going to ask Mr. Katz as counsel to ask a few questions.

Mr. KATZ. Mr. Schoenfeld, there is some problem of confidentiality of your activities concerning these organizations.

Can you disclose whether or not there were any rulings pertaining to any of these organizations, any formal rulings?

Mr. SCHOENFELD. Yes, we can.

Mr. KATZ. Can you tell us what those rulings have been?

Mr. SCHOENFELD. The Asthmatic Children's Foundation of Florida received a ruling to be a section 501(c)(3) charitable organization in December 1964; the Asthmatic Children's Foundation in Miami Beach received a similar ruling, in the same month and year, and the Asthmatic Children's Foundation of New York received an exemption ruling in July 1964.

Mr. KATZ. Were those all the rulings you have issued regarding these organizations?

Mr. SCHOENFELD. Well, we have also issued rulings—I do not have the date—holding that these organizations are public charities within the meaning of section 509.

Mr. KATZ. Were those all the rulings you have issued regarding this organization?

Mr. SCHOENFELD. To the best of my knowledge, Mr. Katz, they are. A "ruling" is a term of art.

Mr. KATZ. I understand that. Can you describe the sum total of your activities? You have talked about the audits. You have talked about the rulings regarding tax status of these. Can you describe any other activities you have engaged in regarding these organizations?

Mr. SCHOENFELD. Particularly as to Asthmatic Children's Foundation, I think that that would rehash the examination and that would be in the area that we would not want to get into.

What we can say is that we have made these audits. We think they were thorough audits, and, in making these audits, we looked to the law and the regulations governing the exemption of such organizations, and the conclusion of the audit was that the organization continue to qualify for exempt status.

Senator MONDALE. Can I interrupt here? Suppose you had a charity that sent a letter out and collected, say, $1 million and spent $999,000 and 99 cents on fund raising, and spent was is left charitably, would that be a tax exempt organization?

Mr. SCHOENFELD. Very possibly, Senator. There are no fixed rules——

Senator MONDALE. You do not get into that at all?

Mr. SCHOENFELD. There is no rule in the Federal tax law that has as a bar to qualification for exemption a certain amount or certain percentage of fund raising for expenses.

Senator MONDALE. You look at how they spend the money they have got to see if it is a charitable purpose?

Mr. SCHOENFELD. Yes, sir, and the manner in which they operate.

Senator MONDALE. Let us put it the other way around. Suppose they collect $999,000 and the president of the organization paid himself $800,000 because he finds himself very able. They put the rest into children's charity. Would that be a tax-exempt organization?

Mr. SCHOENFELD. I would think that a revenue agent would have to scrutinize very closely that arrangement.

Senator MONDALE. Why?

Mr. SCHOENFELD. Because in the Federal tax laws there is a provision disqualifying an organization on the grounds of prohibited inurement of net earnings. Where an agent could find this exists, we would have a basis on which to act, and then we would take steps to revoke exempt status.

Senator MONDALE. On the grounds he is paying himself too much?

Mr. SCHOENFELD. Yes, sir.

Senator MONDALE. If the fundamental purpose was not charity, but self enrichment?

Mr. SCHOENFELD. Exactly.

Senator MONDALE. The same guy says, well, that is likely to happen, and I think I will set up a mail-solicitation side and send what I do not want to charity and they will not look at me, they will just look at what is left. What is the difference?

Mr. SCHOENFELD. I see none, Senator.

Senator MONDALE. You are not looking at mail solicitation?

Mr. SCHOENFELD. I cannot——

Senator MONDALE. That is the way to do it, is it not?

Mr. SCHOENFELD. The agent would have the responsibility to look through it; and if necessary the agent would be authorized to cause an examination to be conducted on this fund-raising organization if it were appropriate. The agent would have access to the return, and he could make a judgment based on the return: Whether or not there were stockholdings involved or whether or not there was a similarity in officers.

On the basis of that information, generally speaking, a decision would be made whether or not to get into the fund-raising organization in the example you gave.

Senator MONDALE. A portion of cost would not be a factor?

Mr. SCHOENFELD. No, sir.

Senator MONDALE. Does not that make you a little suspicious though when they run 70, 80 percent of cost?

Mr. SCHOENFELD. Yes, it does. May I add one thing, Senator?

Senator MONDALE. Yes.

Mr. SCHOENFELD. In 1970, the first return under the Tax Reform Act, we did not have a place on the 990 return to elicit fund-raising expenses. This defect has been cured for the 1973 return, and anyone who wants to inspect the 1973 return will be able to determine for himself what fund-raising costs were in the case of any organization.

Senator MONDALE. But this would be in the files of the IRS. It would not be on the solicitation?

Mr. SCHOENFELD. It would be available for public inspection.

Senator MONDALE. Okay, that is good. But suppose I am out there in Johnston, Pa., and I have got this letter from the Asthma Foundation, how would I find out the information that you have got in your files?

Mr. SCHOENFELD. You would have to ask the local District Director of Internal Revenue to inspect a copy of that return——

Senator MONDALE. Does he have a copy in his office?

Mr. SCHOENFELD. No, sir, he does not. He would have to secure a copy of the return, and he would have to make it available for the taxpayer to look at.

Mr. KATZ. Mr. Schoenfeld, we have a problem here. The IRS has cooperated with us very well on our requests, and these have already told us that some of this information is confidential. My problem is I do not know what is confidential right now.

I have just handed you a copy of a letter that you provided us. Is the matter mentioned in that letter confidential? Are you aware of that?

Mr. SCHOENFELD. I am aware of the letter.

Mr. KATZ. Is that one of the matters that you would want to keep confidential?

Mr. SCHOENFELD. Excuse me a second.

[Short pause.]

Mr. SCHOENFELD. In general I can discuss this, but not specifically.

Mr. KATZ. Why do you not just go ahead, Mr. Schoenfeld.

Senator MONDALE. Did you tell them on one of their operations they had, did you tell them they had to pay taxes on one of their operations? The answer is yes.

Mr. SCHOENFELD. The information returns filed by the organization, filed by the Asthmatic Children's organization disclosed that the organization has filed an unrelated business income tax return.

Mr. KATZ. Mr. Schoenfeld, is that it, or can you tell us any more about it?

Senator MONDALE. This is your big chance now. We have all the letters right here.

Mr. SCHOENFELD. The letter you have received really is a complaint letter, and it complains against the matter of solicitation by Asthmatic Children's Foundation.

Senator MONDALE. Would it be fair to say that they were mailing out coupons for people so people could order things and that they were seeking to treat the income they gained from the sale of such things as tax exempt, and IRS said it was not tax exempt, it would be profit, and they would have to pay taxes on it? Would that be a possibility?

Mr. SCHOENFELD. Generally speaking that would be the consideration that would be looked into.

Senator MONDALE. Let's go on to something else. You say you have authority to look into mail order firms if they are suspicious, if there seems to be an interlocking relationship or something like that.

Mr. SCHOENFELD. A revenue agent conducting an exempt organization audit—

Senator MONDALE. Can you tell me either today or later for the record whether mail order firms have been looked into in past audits?

Mr. SCHOENFELD. Yes, sir, I could.

Senator MONDALE. I am very interested in this. I think there is evidence in the literature that when you get into mail solicitation your costs are very high. Some reputable charities with long reputations for goodwill have been able to keep those costs fairly low, and they develop lists of regular contributors and so on, and they are able to keep it within manageable proportions. But there is such an incentive to make money in mail solicitation on behalf of charity that even though there may be many fine people in that business, I think this is one of the central points of concern. As we saw in the Asthmatic Foundation, they raised $9.9 million over 10 years through mail order solicitation, and their take was over $7 million.

It was clear to me from yesterday's testimony that they did not really look at the books or know how valid those charges were. They did not put it out for bids, that is where a lot of the money could be going. I would think we would keep very close tab on that.

Mr. SCHOENFELD. The question in any audit that a revenue agent would face, Senator, is whether or not there existed an arms length relationship between the mail order company and between the charities soliciting funds from the public.

Senator MONDALE. What about an incompetent relationship?

Mr. SCHOENFELD. I am not aware that incompetence is a bar to qualification for exemption.

Senator MONDALE. You have some well-meaning people in a charity that do not know anything about business, but may be experts, say, on sudden infant death. They sign up with some swindlers who know how to make a lot of money off of charity. They send these letters out, and it may be an arm's length relationship in the sense that the purpose for which the money is raised is rarely assisted, and most of the money goes to the commercial firm.

It seems to me there is an area of public concern here that is not being adequately served.

Mr. SCHOENFELD. To comment upon that, I would say that the Internal Revenue Service looks into all the facts and circumstances of a given case, but unless a transaction would amount to prohibited inurement of earnings, the Service could not take any adverse actions against the organization.

Senator MONDALE. You will try to indicate for the record whether they have in fact looked into this in the past to the extent that your rules permit?

Mr. SCHOENFELD. Yes, Senator.

Senator MONDALE. How many audits do you conduct annually of soliciting charities, do you know?

Mr. SCHOENFELD. I do not know that we have figures exactly along those lines, but I think we audit approximately 15,000 to 18,000 exempt organization returns annually.

Senator MONDALE. How many?

Mr. SCHOENFELD. 15,000 to 18,000.

Senator MONDALE. Of soliciting firms?

Mr. SCHOENFELD. I have no way of knowing that, Senator, just exempt organization returns.

Senator MONDALE. Could you submit some figures for the record?

Mr. SCHOENFELD. I would like to comply with that, but I am not sure that we have records that permit us to break out organizations that solicit funds from the public like that, as apart from other kinds of organizations.

Senator MONDALE. You could do that, could you not?

Mr. SCHOENFELD. We shall certainly try.

[The following information was subsequently supplied for the record:]

Department of the Treasury

Internal Revenue Service
Washington, DC 20224

Date FEB 28 1974 | In reply refer to CP:A:E:P

United States Senate
Committee on Labor and Public
Welfare
Room 4230, Dirksen Office Bldg.
Washington, D. C. 20510

Concerning the additional information requested in the hearing, we have determined that our records will not readily provide the figures wanted. We can not tell from audit statistics how many exempt organization audits resulted in an audit of a mail order firm. We wish to emphasize the point Mr. Schoenfeld made in his testimony that an examining agent would extend his audit as far as necessary to determine that a charitable organization is operating for its exempt purpose.

Likewise, the number of soliciting charities audited each year cannot be determined accurately. However, using the assumption that most public charities engage in some form of fund solicitation, we can provide figures on the number of these organizations audited. In FY-1972, we audited 3,116 public charities, and, in FY-1973, we audited 2,046. For the time being, we are operating in this same range of 2,000 to 3,000 such audits per year.

Sincerely,

John F. Hanlon

John F. Hanlon
Assistant Commissioner
(Compliance)

Senator MONDALE. Through your audits, from what we can tell, you were the only organization which knew that they had this complicated structure of seven separate charities and fundraising techniques of the kind that have been described, the high fundraising costs, 70 to 80 percent.

In the course of your work, do you advise, say, the New York charities office—do you advise any other organization that might be able to help the public on this?

Mr. SCHOENFELD. Only where the statute would provide.

Senator MONDALE. Where does it provide?

Mr. SCHOENFELD. Section 6104(c).

Senator MONDALE. What does that say?

Mr. SCHOENFELD. Generally speaking, this section provides that the Internal Revenue Service will give automatic notification to the State attorney general or principal tax officer of the State of notices of deficiency pertaining to private foundation taxes or of final determinations that an exempt organization no longer qualifies as a charity under law.

Senator MONDALE. So here was an outfit running 85 percent in nonprogram costs which your auditors knew, but under that law you would not be required to notify anybody?

Mr. SCHOENFELD. That is true.

Senator MONDALE. And no one I assume was notified?

Mr. SCHOENFELD. That is true.

Senator MONDALE. So what we have is a pattern here where a charity, as testified yesterday, stays out of States that have tough laws. If they are in a State with a tough law, they send in somebody under the carpet to make it comply. There is a small Better Business Bureau organization that has $30,000 a year to protect the country. They have got the IRS which has audits, but does not tell anybody, unless they prove they are not tax exempt.

If they are not tax exempt, they are out of business anyway. So really there is not any protection against what we saw yesterday right now, is there, for the average contributor?

Mr. SCHOENFELD. I am not in a position to comment or make judgments like that, but you have certainly outlined the problem, Senator.

Senator MONDALE. Yesterday Helen O'Rourke from the Better Business Bureau organization said many times these so-called 990-A's, the information forms on charities, are four or five years behind, out of date. How does that happen?

Mr. SCHOENFELD. One portion of her testimony that I thought I would like to clarify was that I thought she said that the latest return available would be 4 or 5 years old. All that would mean, Senator, is that we have a request for the latest available return and we provide what is in our files.

Senator MONDALE. Why do you not have it up to date in your files?

Mr. SCHOENFELD. Well, prior to 1970 there was really no penalty for an organization that failed to file these returns. To be very candid about it, we had a problem.

Senator MONDALE. Now is it required by law?

Mr. SCHOENFELD. Yes.

Senator MONDALE. They have to file.

Mr. SCHOENFELD. With certain exceptions, but most charitable organizations now have to file returns.

Senator MONDALE. So that following the filing date now you should be able to go to those public reports and see every charity that is tax exempt in the country?

Mr. SCHOENFELD. Yes. If an organization is delinquent, we can take steps to secure that return and we would make it available to Ms. O'Rourke or anyone else from the public as soon as we would get possession of it.

Senator MONDALE. Thank you very much.

We stand in adjournment subject to the call of the chair.

[Whereupon at 10:22 a.m., the subcommittee was recessed subject to the call of the Chair.]

BEST COPY AVAILABLE

CHILDREN'S CHARITIES, 1974

MONDAY, MARCH 11, 1974

U.S. Senate,
Subcommittee on Children and Youth
of the Committee on Labor and Public Welfare,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2228, Dirksen Senate Office Building, Senator Walter F. Mondale, subcommittee chairman, presiding.

Present: Senators Mondale and Randolph.

Committee staff members present: Ellen Hoffman and A. Sidney Johnson III, professional staff members, and Harvey Katz, consultant.

Senator Mondale. The subcommittee will come to order.

This morning we continue a series of hearings on children's charities.

Our first witnesses are representing the Girl Scouts of the U.S.A., and consist of Mrs. Betty Pilsbury, member national board of directors, Girl Scouts of the U.S.A., Toledo, Ohio; Mrs. Philena C. Strappelli, executive director, Girl Scouts of Central Maryland, Inc., Baltimore, Md., and Miss Gioia Mapp, cadette, troop 525, Annapolis, Md.

You may proceed as you wish. You may wish to summarize your statement, and the complete text of your prepared statement will appear in the record at the conclusion of your testimony.

STATEMENT OF BETTY F. PILSBURY, MEMBER, NATIONAL BOARD OF DIRECTORS, GIRL SCOUTS OF THE U.S.A., TOLEDO, OHIO; ACCOMPANIED BY PHILENA C. STRAPPELLI, EXECUTIVE DIRECTOR, GIRL SCOUTS OF CENTRAL MARYLAND, INC., BALTIMORE, MD.; GIOIA MAPP, CADETTE, TROOP 525, ANNAPOLIS, MD.; DR. GLORIA SCOTT, FIRST VICE PRESIDENT AND CHAIRMAN OF THE EXECUTIVE COMMITTEE, NATIONAL BOARD OF DIRECTORS, GIRL SCOUTS OF THE U.S.A., WASHINGTON, D.C.; MARIANNE PINNEY, DIRECTOR OF FINANCIAL DEVELOPMENT, GIRL SCOUTS OF THE U.S.A., NEW YORK, N.Y.

Mrs. Pilsbury. Thank you, Mr. Chairman.

I am Betty Pilsbury, member, national board of directors, Girl Scouts of the U.S.A., from Toledo, Ohio.

Senator Mondale. Incidentally, Senator Taft requested I welcome you on his behalf, and regrets that he cannot be here this morning. He was scheduled to testify before the House Judiciary Committee, and he asked me and the staff to convey his kindest regards to you.

Mrs. PILSBURY. Thank you, Mr. Chairman. On my left is Mrs. Philena C. Strappelli, executive director of Girl Scouts of Maryland, Inc., Baltimore, Md. The young lady with me is Miss Gioia Mapp, cadette, troop No. 525, from Annapolis, Md.

Also accompanying me is Dr. Gloria D. Scott, first vice president and chairman of the executive committee, National board of directors, Girl Scouts of the U.S.A., and Miss Marianne Pinney, director of financial development, Girl Scouts of the U.S.A., N.Y.

My affiliation with the Girl Scouts goes back many years. Prior to my present office with the Girl Scouts of the U.S.A. I was president of a local Girl Scout council in northwest Ohio.

It is my understanding that this committee is concerned with the type of fundraising practices in the voluntary sector that are excessive in cost, and also exploit children in soliciting contributions from the general public.

Let me assure this committee that your concern in this area is shared by all of us in Girl Scouting. We are the largest single organization in the country dedicated to serving all girls in the age group from 6 to 17.

Mr. Chairman, we appreciate and share your interest and concern for youth. I doubt if there is anyone in this room who has not heard of, and probably purchased Girl Scout cookies. It is to this money-earning effort that I would like to direct major portions of my remarks this morning.

You will note that I referred to selling Girl Scout cookies as a money earning project. I do this purposely to distinguish this from a direct solicitation for financial contribution.

In the sale of cookies the buyer receives value in kind, with a reasonable profit markup.

In the case of Girl Scout cookies on a $1 box of cookies the cost to profit ratio is in the neighborhood of 45-cent cost to a 55-cent profit.

Purchase of Girl Scout cookies is not a tax deductible item, as is a direct contribution. Because of our continual concern for the health and safety of girls we have set up the following safeguards as standard operating procedures for girls when selling cookies or any product.

Let me enumerate them. Girls work in pairs whenever possible, wearing their Girl Scout uniforms or pins for identification;

Participation is limited to those girls old enough to be businesslike in manner, and to handle money accurately. Each girl is directed and supervised by a responsible adult;

Each girl must obtain written permission from her parent or guardian to participate;

Girls are encouraged to take orders from their close friends, relatives, and to limit their activity to their immediate neighborhoods;

Entering a house or apartment of a stranger is not allowed;

Orders for cookies are taken in advance of delivery generally, and money is collected only upon the delivery of the cookies.

These are national standards. Local councils may have other safeguards that they promote, depending on local conditions.

Proceeds from the sale of cookies have increased dramatically over the past 40 years. Our cookie sales date back to 1933, when 114,000 boxes were sold. Last year, 40 years later, there were 66 million boxes of cookies sold.

The net proceeds from this money-earning project amounted to $25 million. That averages out to 34.7 percent of the income of a local Girl Scout Council.

Senator MONDALE. Do you split the proceeds between the local councils and the national?

Mrs. PILSBURY. The national organization does not receive anything.

Senator MONDALE. It all stays local?

Mrs. PILSBURY. That is right, except for a very small percentage that the cookie companies turn over to the national organization.

Senator MONDALE. What does that amount to?

Mrs. PILSBURY. It is 1 percent I believe of their sales, not the gross sales, but the net sales.

The amount received by the Girl Scout Councils from sales equals the allocation the Girl Scout Councils receive from their local United Way organizations.

In addition, $5 million last year was returned to Girl Scout Troops within the 356 councils across the country. These are funds which the girls spend directly for troop related activities. This brings us now to how the money from cookie sales is used.

It is important to be familiar with the local Girl Scout Council, since this is the administrative unit responsible for the direction and coordination of all Girl Scout activities at the troop level.

Within the Council structure there are paid staff who are responsible for the recruitment and training of volunteer leaders who work directly with the girls. Program content and program directions are an ongoing responsibility of Council staff.

The registration, record keeping, camp and property development and maintenance, and regular communication with voluntary leaders are expense items in the budget to which some of the proceeds from cookie sales are allocated.

Cookie sales have helped Councils provide what we call camperships, so that all girls, regardless of their financial status, have been able to participate in the camping programs.

Councils have also undertaken many projects to bring the Girl Scouting program to girls of the inner city and to those from disadvantaged areas and groups. Cookie sales have helped make many of these programs possible.

I mentioned earlier that some $5 million from the cookie sale is returned directly to the troops. The girls use this money to finance their own troop originated events, such as, day trips to places of special interest, overnight or even longer trips, or perhaps supplies and equipment for projects in the arts. How this money is spent at the troop level is a shared decision among the girls themselves with the guidance of adult troop leaders.

I have referred in my remarks this morning to cookie sales as a money earning project as distinct from a direct fund raising solicitation because this distinction must be understood.

I have also talked extensively about cookies, because this is the major source of income from product sale. Girl Scouts do sell other products, such as calendars and nuts. This then represents a very minor source of the total income from product sales. The same safeguards are applied in selling these products as I enumerated earlier in regard to selling cookies.

We think you should know that the Girl Scouts have long supported open and complete disclosure of all financial matters.

As a national organization we participate wholeheartedly in the development of the standards of accounting and financial reporting for voluntary health and welfare organizations which were published by the National Health Council and the National Social Welfare Assembly in 1964. Our national organization conducted workshops for local Council financial personnel throughout all areas of the country to encourage adoption of the standards and to train Council personnel in technical knowledge needed.

Our national staff has recently taken part in meetings concerning revision of standards and has commented favorably to United Way of America concerning the new "Audit Guide for Volunteer Health and Welfare Organizations" published earlier this year by the American Institute of Certified Public Accountants.

Our local Councils are accustomed to reporting annually to their membership, and to their communities, detailed information on sources of income, and how money is spent. If further information of a financial nature would be helpful to this subcommittee I can, I am sure, get the information for you.

I will conclude my remarks this morning and take this opportunity again to thank the committee for allowing us the time to briefly tell you about Girl Scout cookie sales.

At the same time, I trust that there are other aspects of Girl Scouting that we are also known for besides cookie sales, such as the development of values, opportunities of service for girls, awareness of individual worth, respect for diversity, and so on.

Each of you has a more detailed statement relative to the subject under discussion, and those of us here this morning will be happy to answer any questions you might care to ask.

Senator MONDALE. Thank you very much for a fine statement.

We invited the Girl Scouts and Camp Fire Girls to testify, because from what we have been able to tell, they do enforce certain standards of fund raising.

The subcommittee staff has examined the financial records of the national organizations, and some local affiliates.

However, it is impossible for us, as you can understand, to undertake a comprehensive study of hundreds of local affiliates.

One of your biggest costs in this effort, of course, is the cookies themselves. Now, how do you try to arrive at the best bargain to assure you can keep those costs as low as possible?

Mrs. PILSBURY. I think Mrs. Strappelli, who is a local Council Executive, can answer that question.

Mrs. STRAPPELLI. First, I think we need to know that those bakers who may label their products Girl Scout cookies are licensed by our national organization.

Each local council entering into a cookie sale then works from that list of licensed bakers.

Senator MONDALE. You do not make a national contract? Contracts are made locally?

BEST COPY AVAILABLE

Mrs. STRAPPELLI. The contracts are made locally. The license is national. We all select one of the licensed bakers who has bid on a very competitive basis for our business.

Senator MONDALE. And it is put out on bid, you say?

Mrs. STRAPPELLI. That is correct. And, it is often with personal presentations to our local committees.

Senator MONDALE. Now, does the national office, in working with the local groups, urge them to get the best possible price and help them in their bidding, and so on?

Mrs. STRAPPELLI. We try to get the best possible price. We try not to be too cutthroat, lest we damage the goose that laid the golden cookie.

Senator MONDALE. I have eaten a lot of them, and some years I thought they got a pretty good price.

Does the price vary from Council to Council, that is, do you find a wide variation in what they pay?

Mrs. STRAPPELLI. There is very little variation as to what price is paid.

Senator MONDALE. Could you tell me approximately what an average Council would pay for the cookies, and what do they sell for?

Miss PINNEY. Most Councils pay about 42 cents per package of cookies.

Senator MONDALE. I see.

Miss PINNEY. Most Councils sell cookies for $1 per package. A few sell for more than that.

Senator MONDALE. And do you get reports to know what they pay, and so on?

Miss PINNEY. No, not precisely as to what they paid or to the details of the contract. Our locals are independent corporations. They lean to their own contract. We do get some information.

Senator MONDALE. Do they get a common wrapper? How is that done?

Mrs. STRAPPELLI. The package is standard for each baker.

We have some sample packages, if you would care to see them.

Senator MONDALE. Have you gone door-to-door to sell?

Miss MAPP. Yes, sir, for about 4 years.

Senator MONDALE. Tell me what you do, and what it is like.

Miss MAPP. First we take orders by going door-to-door, and asking people what kind of cookies they would like. We write out the order sheets, and send them to the Councils. They send us as many boxes of each kind as we ordered. Then we deliver them.

Senator MONDALE. So when you go door-to-door you have an order form for them?

Miss MAPP. Yes, that is the first time around.

Senator MONDALE. What kind of reception do you get? Do people treat you nicely?

Miss MAPP. Oh, yes. They look forward to getting cookies. When people see you in uniform they ask you when you are going to start selling cookies, and when you go to the door if you have any cookies with you.

Senator MONDALE. Do you ever get a rough time at the door?

Miss MAPP. No, most people are pretty nice about it.

Senator MONDALE. Do you find by now that they know that cookies are going to be sold, that they are used to it, and they look forward to it?

Miss MAPP. Yes, at certain times of the year they expect us to come around. They look forward to us.

Senator MONDALE. And do the other girls like to do that?

Miss MAPP. I think all of us enjoy doing it. It is happy work.

Senator MONDALE. What do you do with the money in your local Council?

Miss MAPP. Well, out of each $1 box that is sold the troop gets 15 cents. When we add it all up we use it for different projects.

Senator MONDALE. What sort of things do you use it for?

Miss MAPP. Right now there is a Cadette Council Conference where the girls get together; cookie profits do help to finance our going to conferences.

Senator MONDALE. Where was the conference?

Miss MAPP. The conferences are going to be in different places in each area.

Senator MONDALE. But you need money to get to the meeting, is that correct?

Miss MAPP. Yes.

Senator MONDALE. How long does the meeting last?

Miss MAPP. It is 2 days.

Senator MONDALE. Do the kids like it?

Miss MAPP. Yes, we get together and talk about different events.

Senator MONDALE. Do you have camps?

Miss MAPP. Yes, the other 45 cents goes to the upkeep of the Council camps, to the troops as a whole, and to different camps. In my area there is a national camp called Woodlands where we can go because of cookie sales.

Senator MONDALE. The children whose families might not be able to afford to send them to the camp, do they get help so they can go?

Miss MAPP. Yes, we do give a certain percentage to underprivileged girls.

Senator MONDALE. And do quite a few children get to go because of that?

Miss MAPP. Yes. Sometimes the fee for summer camps is pretty steep for some people, and this money helps them.

Senator MONDALE. Do people ever ask you how the money will be used?

Miss MAPP. Yes, and I try to tell them how it is used. It is nice for them to know how the money is used.

Senator MONDALE. Do you find that they are interested in the fact that their money is going to go for some useful purpose?

Miss MAPP. Yes, I guess most people are interested in where their money goes when they give to charity.

Senator MONDALE. Very good. Do you ever run into problems with less reputable groups of children going door to door? Is that a problem in your fund raising?

Mrs. STRAPPELLI. Yes, once in a great while we have a call from someone, at some strange time of the year, asking whether we are selling cookies when we are not. It is remarkably rare.

Senator MONDALE. Do you find groups trying to use your name?

Mrs. STRAPPELLI. I think not groups. I think individuals.

Senator MONDALE. Do you find groups trying to solicit girls to sell cookies on the grounds that Girl Scouts do?

Mrs. STRAPPELLI. This has not happened in my experience.

Senator MONDALE. Now, as I understand it, this whole operation is tax exempt, am I correct in that? Do you have your IRS tax exemption?

Mrs. STRAPPELLI. Yes.

Senator MONDALE. One other question.

Are you affiliated with the National Health Council?

Mrs. STRAPPELLI. No. One of the things we are interested in is trying to develop national standards for uniform accounting in charities. The National Health Council, I realize has established some standards and we are interested in them.

We are presently using the uniform accounting system which has been worked out by United Way with the National Health Council.

Miss PINNEY. We are associated with the National Assembly for Social Welfare, which joined with the National Health Council in 1964 to produce these "Standards for Accounting and Financial Reporting for Voluntary Nonprofit Organizations."

We have been participating in the revision of those standards.

We have commented to United Way of America on the new accounting manual which is based upon the "New American Institute of Certified Public Accountant Audit Guide Statements."

Senator MONDALE. Are you complying with those?

Miss PINNEY. We do comply with them.

Our national organization back in the mid- to late-1960's, did some extensive work with our locals to insure as much compliance as possible.

However, our locals, by and large, tend to do their financial reporting in the format which their local United Way requires, since it is the local United Way which gives them a large part of their financial support.

As a consequence you will find some variation between the councils audits which we gave the committee staff. That largely is a result of the local United Way requirement.

Senator MONDALE. But what they tend to do, the local council would apply with the local United Way, which they must do in order to participate, and they will send you a copy of that audit?

Miss PINNEY. Right. I think all of our locals have practiced full disclosure. Some of them have done some of the functional allocations which standards call for and the conformity to the 1964 standards has improved rather dramatically over the past few years.

Senator MONDALE. I am very grateful for your testimony. We are very pleased to have you with us.

Thank you very much.

[The prepared statement of the Girl Scouts of America as presented by Mrs. Pilsbury follows:]

WRITTEN TESTIMONY

OF

GIRL SCOUTS OF THE UNITED STATES OF AMERICA

BEFORE

THE SUBCOMMITTEE ON CHILDREN AND YOUTH

OF

THE SENATE COMMITTEE ON LABOR AND PUBLIC WELFARE

MARCH 11, 1974

PRESENTED BY BETTY F. PILSBURY, MEMBER NATIONAL BOARD

The Girl Scout program is an informal educational program designed for the purpose of inspiring girls with the highest ideals of character, conduct, patriotism and service that they may become happy and resourceful citizens. It is carried out in small groups with adult leadership and provides a wide range of activities developed around the interests and needs of girls.

THE NATIONAL GIRL SCOUT ORGANIZATION

Girl Scouts of the U. S. A. is a corporation chartered by the United States Congress and operated by a National Council. Members of the National Council, who are elected representatives of Girl Scout councils, meet in convention every three years to set directions for Girl Scouting throughout the United States.

NATIONAL BOARD OF DIRECTORS. The National Council elects a volunteer Board of Directors to carry on its business between conventions. Women, men, and girls from all parts of the country, reflecting the diversity of a pluralistic society, serve as Board members. Girl Scouting is enriched by their varied points of view, their professional backgrounds, and their concern for girls in many different circumstances.

NATIONAL HEADQUARTERS. The national organization coordinates its services to councils through national headquarters, 830 Third Avenue in New York City. Further day-to-day services to councils are provided by national staff members in six regional national branch offices. Overseas field offices provide staff services for the more than 36,000 members living abroad who are affiliated with North Atlantic Girl Scouts (13 countries) and U. S. A. Girl Scouts-Far East (4 countries).

Financial support for the National headquarters is provided by the two dollar registration fee, paid annually, by each girl and adult member of the Girl Scouts of the U. S. A. This is augmented by income provided by items sold through the National Equipment Service, gifts, and investment income.

GIRL SCOUT COUNCILS

The National Board charters councils to bring Girl Scouting to girls. At the end of fiscal 1973 there were 356 councils, ranging in area from part of one metropolitan city to an entire state. Councils organize troops and operate camps in which girls enjoy the fun and learning of the Girl Scout program; recruit adult volunteers, encouraging them to work together and to use community resources for the benefit of youth. Thus, Girl Scouting is one of the nation's most extensive programs of adult education as well as its largest organization for girls.

COUNCIL CHARTER

A Girl Scout council charter is a credential issued triennially by the Board of Directors of Girl Scouts of the United States of America to a group of persons, a corporation, or other form of organization exclusively devoted to the Girl Scout movement in the United States, granting it the right to develop, manage, and maintain Girl Scouting in a specified area of jurisdiction and to call itself a Girl Scout council.

In order to receive and retain a charter, a council agrees:

To subscribe to the purpose, adhere to the policies, and be guided by the standards of Girl Scouts of the United States of America.

To develop, manage, and maintain Girl Scouting throughout the area of its jurisdiction, in such manner and subject to such limitations as prescribed in the Constitution, the Bylaws, and the policies of Girl Scouts of the United States of America.

To participate in the activities and business of Girl Scouts of the United States of America. To make reports of its work to Girl Scouts of the United States of America, pay its charter fee, have at all times a registered board of directors, and make sure that all persons affiliating with the council meet individual membership requirements.

MEMBERSHIP

3,000,000 Girls
600,000 Adults

Approximately one out of every seven girls ages 6-17 in this country is a member of the Girl Scouts.

Adult members include Campus Girl Scouts of College age plus volunteer leaders at the Council and troop level and resource persons.

Girl members belong to small groups called troops, each with an adult leader. There are 164,000 troops in the U. S.

Each troop belongs to a council. Councils may be citywide, areawide or statewide and each council is autonomous having its own board of directors, volunteer leaders, and is incorporated in the state where it is located. A Girl Scout Council is the core management, program and fund raising unit for a given geographical unit.

FINANCIAL SUPPORT

The total income for all these councils reporting in 1972 (the most recent year for which we have data) was $73,500,000.

The major sources of Girl Scout Council income can be broken down into the following categories:

a.	United Ways	$25,488,968	34.7%
b.	Product Sales	$25,478,472	34.7%
c.	SME Camp.*	$ 3,414,565	4.5%
d.	Camping Fees	$12,402,629	16.9%
e.	Investment Income	$ 2,037,330	2.8%
f.	Restricted Gifts, Grants and Miscellaneous	$ 4,678,036	6.4%

The foregoing data has been presented by way of general background information and general accountability. It is our understanding that this committee is interested primarily in the area of product sales where girls are involved in the planning, promotion and the sale of cookies which represent a substantial source of Girl Scout operating income. Girl Scout troops and councils do occasionally sell other products for profit; however, the volume of such sales is low and of little consequence when compared to the very popular Girl Scout cookie. We estimate that about 95% of product sale income for councils is derived from the sale of cookies.

*SUSTAINING MEMBERSHIP ENROLLMENT

BACKGROUND ON COOKIE SALES

Historically the Girl Scout cookie sales dates back to 1933 when 114,000 boxes were sold. Each succeeding year has witnessed substantial increases and in 1973 there were 66 million boxes sold. National headquarters of the Girl Scouts of the U. S. A. supervises and administers the relationships with various bakers. There are currently seven companies officially licensed to produce Girl Scout cookies. Licensing agreements are for two year periods and are renewable. They are non-transferable and can be cancelled for cause.

QUALITY CONTROL

Weights are established by the Girl Scouts of the U. S. A. to insure uniformity,and quality control is safeguarded by requiring all bakers to submit the formula for cookies and production run samples to national headquarters.

SAFEGUARDS ON COOKIE SALES

In fulfillment of its responsibility to provide standards for the conduct of program and fund raising, the National Organization has published its program and safety standards in "SafetyWise," a publication distributed to all councils. The standards which apply to product sales stipulate that:

a. Each girl is trained, directed, and supervised by a responsible adult.

b. The permission of each girl's parent or guardian is obtained in writing.

c. Girls work in pairs whenever possible, wearing their Girl Scout uniforms or pins for identification.

d. Girl participation is limited to those who are old enough to be business-like in manner and to handle money accurately.

e. Girls are not allowed to make a direct solicitation for cash.

f. Orders for cookies are taken in advance of delivery and money is collected only upon delivery of cookies.

g. Girls are not allowed to enter a house or apartment of strangers and are encouraged to take order within their immediate neighborhood.

PROCEEDS FROM PRODUCT SALES

The following data is based on financial information from 317 councils for 1972 (last year for which complete figures are available). The 317 councils reporting represent 94.2% of the membership.

Gross Proceeds	$53,600,000
Cost of Sale including Product	$22,800,000
Girl Scout Profit	$30,800,000
For Councils	$25,500,000
For Troops	$ 5,300,000

On the average, cookies cost 42 cents a box and are sold by the girls for $1.00 a box. The exact selling price is determined by each Council. Each Girl Scout Council also determines the proceeds each troop within its jurisdiction will receive. Nationally this averages out to about 10 cents a box rebate that is retained by the troop.

HOW THE MONEY IS USED

As the central administrative unit, the council is responsible for direction and coordination of all activities of Girl Scout troops within its durisdiction. Only at the council level are there paid staff who are responsible for the recruitment and training of the volunteer leaders who work with girls. Program content and program direction for girls is an ongoing responsibility of the council. Registration of all girls, record keeping, and regular communication with volunteer leaders are also expense items in the operating budget to which some of the proceeds from product sales are allocated.

Since its founding in 1912, Girl Scouting has encouraged girls to engage in healthful activities in the out-of-doors. Through the years, a major part of the expense involved in the operation of the 3500 camp sites throughout the country has been met with the proceeds from cookie sales. Cookie sales have enabled councils to acquire camps and to maintain them adequately while charging fees which are within the reach of virtually all of the members. Many councils have also used profits from product sales to provide camperships so that all girls regardless of their financial status have been able to participate in the camping program.

In recent years, councils have undertaken an increasing number of projects designed to bring the Girl Scout program to girls of the inner city and other disadvantaged areas and groups. Cookie sales have made many of these projects possible.

Troops use their portion of cookie proceeds to finance their own troop originated programs, i.e., day trips to places of special interest, overnight hikes, supplies and equipment for projects in the arts. How the money is spent at the troop level is a shared decision among the girls themselves with the guidance of the adult troop leader.

In conclusion, it should be pointed out that the product sales is a money earning project as distinct from a direct solicitation for a contribution. The person purchasing a box of cookies gets value in kind for his financial investment, and this is not a tax deductable contribution. Although a profit is realized in the sale of cookies, the selling price must have a ceiling in it that bears a realistic relationship to the value of the product sold. For this reason, Girl Scouts have continued to maintain a 45/55 cent ratio between cost and selling price.

Product sales is an integral part of Girl Scout financing at the Council and troop level. It is recognized by local United Way organizations as an acceptable method of supplementing operating income. It has received increasing acceptance by the general public over the past forty years. It provides the financial means to support many essential activities in the overall program of Girl Scouting.

In presenting the total picture of product sales, we have attempted to clarify for the committee all aspects of this money raising project. We would be happy to respond to any questions the committee may have.

Senator MONDALE. Our next panel is the Camp Fire Girls, Dr. Hester Turner, national executive director and Maude Katzenbach, executive director, Potomac Area Council.

If you will come to the witness table, please, we will be happy to hear you.

STATEMENT OF DR. HESTER TURNER, NATIONAL EXECUTIVE DIRECTOR, CAMP FIRE GIRLS, INC.; ACCOMPANIED BY DR. SYLVIA KOOSE, ASSOCIATE NATIONAL EXECUTIVE DIRECTOR; MAUDE KATZENBACH, EXECUTIVE DIRECTOR, POTOMAC AREA COUNCIL; AND CAMP FIRE GIRLS VIKKI EWING AND JAMIE FAIRCLOTH

Dr. TURNER. Thank you, Mr. Chairman.

My name is Dr. Hester Turner. I am national executive director of Camp Fire Girls, Inc.

I could perhaps read my prepared statement, but I think it would be best if I submit it for the record.

Senator MONDALE. Well, I think we will get right to the questions. We will put your statement in the record as though read, and emphasize in your opening remarks the things we ought to know about the Camp Fire Girls.

Your statement will appear in the record at this point.

[The statement referred to follows:]

CAMP FIRE GIRLS, INC./1740 BROADWAY/NEW YORK, NEW YORK 10019/Telephone: 212 — 581-0500

March 7, 1974

United States Senate
Subcommittee on Children and Youth
Washington, D.C. 20510

Attention: The Honorable Senator Walter F. Mondale,
Chairman

Greetings:

Camp Fire Girls, Inc., is pleased to provide information about its product sales program, an annual event in most Camp Fire councils for the past twenty-five years.

Today the product sale is a vital part of the organization, providing 21% of the funds used by local councils to deliver the Camp Fire program to girls in their communities.

In addition to being a major source of support, the product sale provides sound program experiences for the girls and positive visibility for the agency.

We are here today from Camp Fire Girls -- representing the local council, the girl member and the national organization- to provide you with a picture of our program and the important, successful role the product sale plays in the Camp Fire organization. We welcome your questions.

Sincerely,

Dr. Hester Turner,
National Executive Director

enc.

Founded in 1910, Camp Fire Girls was the first non-sectarian inter-racial organization for girls in the United States of America.

Camp Fire has a tested program for youth which draws on the education, human relations and child development fields. Its objective is to develop youngsters into self-directed adults capable of successfully functioning in their world. Membership is open to girls six years of age through high school, boys of high school age and adults, including employees of Camp Fire Girls, Inc., without regard to race, creed, national origin or economic status, who subscribe to the purposes and objectives of the organization.

As a national, voluntary membership organization, Camp Fire is composed of two inter-dependent parts - the local council and the national organization.

Nationally, Camp Fire Girls, Inc., is incorporated as a not-for-profit organization in the state of New York with National Headquarters in Manhattan and a Service Center in Denver, Colorado The organization is governed by a National Council of approximately 200 volunteers from across the country. It is this body that determines policy, elects the National Board of Directors and sets the direction of the agency.

The national organization provides the resources and structure for the research and development of the program. It establishes standards and provides a full spectrum of supporting services to the local unit. It charters the local council for the purpose of implementing the Camp Fire program in local communities. The national organization is supported by membership dues and from the sale of program supplies to members (uniforms, books, insignia).

At present there are 372 chartered, incorporated councils serving over 600,000 members in 25,000 communities. The local council offers the program through small groups under the leadership of trained volunteers. The council is charged with recruiting, training and supporting the group leaders and providing all of the program resources for the youth members. These include camping, teenage leadership program, special community service projects and basic human relations experiences in a small group setting.

Local councils must be self-supporting and income has been mainly allocations from the United Way. Unfortunately, the United Way is no longer able to completely finance a council's services to its members and communities. Thus, the council is in a position of having to raise more and more of its own funds.

Camp Fire endorses federated funding and so supports and promotes methods of financing local councils which are consistent with the efforts of United Way. The annual product sale has the complete endorsement of Camp Fire Girls, Inc., for the following reasons:

> It is not in conflict with the United Way campaign efforts.

It gives the public full value for its dollar.

It provides opportunity for adults and the youth members to participate in the support of their organization.

It has positive program value for the girls involved.

It is a short-term project that easily makes use of the on-going structure for the sales campaign.

Its campaign costs are minimal and it provides a high, sure return on money invested.

The national organization provides leadership and support services to the local councils' annual product sales.

It approves product companies and issues a list small enough to obtain the advantages of sale volume and large enough to give the council a choice. Approval involves:

- Financial analysis via Dun & Bradstreet, reports and other financial investigations to insure that the company is financially sound.
- Adequate company staffing to provide effective service to the council in its fund raising product sale.
- The right to use the Camp Fire Girls, Inc., registered insignia and logo on their packages only after product and packaging designs have been approved by Camp Fire Girls, Inc.

- Evidence of a high quality product with a comparable price to similar products on the open market.
- A payment to Camp Fire Girls, Inc., of a royalty in the amount of at least 3% of the total selling price to a Camp Fire council.
- Agreement to contract directly with each council for the product sale.
- Annual review of performance and periodic meetings with the Director of Business Administration of Camp Fire Girls, Inc., to review the production company's operation.

The national organization has established a set of policies, standards and guidelines designed to insure a safe, successful sale. The following is a brief summary of policy and council operation:

Responsibility for the direction and management of the product sale is vested in the local council Board of Directors.

- The Board chooses the product(s); establishes the sale dates; designs the leaders' training program; establishes safety rules; and manages the total sale program.

Councils clear their product sale with the United Way, Chamber of Commerce, Better Business Bureau, governmental departments. All ordinances and local laws are observed.

The Council Program Committee shares in the planning for the sale and materials for leaders in order to give girls the best experience.

Group participation in the sale involves practicing sales techniques; learning how to make change; learning how to keep records; setting group goals; opening a group bank account to keep profits and earn interest; discussing pedestrian and bicycle safety factors and learning about the council.

Group leaders have found that the product sale teaches responsibility, builds group spirit, builds self-confidence and skill in money matters.

Well thought-out protective measures are established. Safety rules are fully discussed with the leaders and other adults working on the sale. Parents are issued copies and are requested to sign permission slips indicating that they will help their daughters abide by the rules.

Safety rules in councils include the following directions:

Girls must sell in daylight hours only.

No girl shall enter a house, apartment building or office building unless accompanied by an adult.

Girls shall be accompanied by an adult in strange neighborhoods.

Girls shall travel in pairs at all times.

Girls shall frequently return cash to their homes so they will be carrying only a minimum amount of money.

Girls shall carry only small amounts of the product.

Girls, when riding bikes or walking, shall observe traffic cautions involving:

- use of sidewalks
- use of crosswalks
- use of traffic signs and lights
- use of highway and roads
- Vehicles should not be overloaded.
- The condition of vehicle and qualification of driver plus adequate insurance on vehicle is stressed.

Camp Fire Girls participating in the sale wear their uniforms or a special Camp Fire sales badge. This is a safety measure and also a protection for the public.

Councils recognize the product sale as a sound means of financing group programs by allocating a percentage of gross profit to the group in proportion to the group's participation in the sale.

These profits are used for Camp Fire group program purposes only: buying supplies; special group programs; paying national membership dues; carrying out community service projects and going on trips.

The council product sale is regarded as an opportunity for girls to volunteer for a cause larger than themselves, and to find the satisfaction that comes from personal effort to help others.

Participation in the sale is not a requirement of membership. Youngsters and parents participate as a service to the council and as a means of raising substantial funds for their own group activities.

Council profits from sales are used for Camp Fire program services.

Today about 21% of the council's budget is obtained from the sale and is used for camperships, special program projects, capital improvement at camp, operation of the year-round program, opening new territory and providing matching funds for grants.

The use of the funds is determined by the council board of directors as a part of the over-all budget and is approved before the sale so that members and the public know the purpose of the sale and how the profits are to be used.

All product sale monies are independently audited as a part of the nationally required annual report which is presented to local members, the national organization, the United Way and the public as requested.

The sale is of short duration and is carried out at the group level.

Groups usually sell together for the first few days for practice with a unified thrust in their neighborhoods.

After this, individual girls and their parents sell together in their neighborhood and to relatives. Parents often take the product to their place of business. Sponsors of the group assist with cars and supervision of teams of girls wishing to sell outside their neighborhoods.

The council may arrange for special sales in shopping centers, banks, at sports events for groups and also for special task groups such as a council's fathers' club.

The sale is designed to have a positive public relations value.

The council carries out extensive programs to interpret the sales to the public and to enlist the support of community leaders and the business community.

The council chooses its product carefully, based on its assessment of community preferences and values. Dates for the sale and sales approaches are also designed with the community in mind.

The national organization works with the product companies to insure attractive packaging, including a program message as a part of every package.

The national organization provides a continuous flow of services to support the product sale efforts of councils through:

Individual consultation to councils from the Service Center and Headquarters.

Frequent contact with the product companies to insure their product quality, package and profits to the councils.

Constant work with companies and councils in their negotiations, planning and problem solving.

In summary, Camp Fire nationally is committed to the product sale as a successful method of fund raising which involves the membership and affords sound program opportunities for the youth involved. The product sale has become a vital part of the organization. We are proud of the way it is managed across the country and the program services to girls and communities which it has made possible.

CAMP FIRE GIRLS APPROVED

CANDY, NUT, CALENDAR, AND MAGAZINE SUBSCRIPTION COMPANIES

COMPANY	ADDRESS
Earle S. Bowers Company	New Albany Rd. & N. Church Street Moorestown, N.J. 08057
Brown & Haley	P. O. Box 1596 Tacoma, Washington 98401
Chippers Nut Hut, Inc.	4755 Telegraph Rd. Los Angeles, Calif. 90022
Chocolate Company of America	1020 West Adams Street Chicago, Illinois 60607
CHB Foods, Inc.	100 15th Street San Francisco, Calif. 94103
DeMet's, Inc.	20 N. Wacker Drive Chicago, Illinois 60606
Fanny Farmer Candy Shops, Inc.	4 Preston Court Bedford, Maryland 01730
King Candy Company	P.O. Box 2080 Ft. Worth, Texas 76101
Liberty Orchards Company, Inc.	Cashmere, Washington 98815
Mrs. J.G. McDonald Chocolate Co.	2250 S. 3rd E. Street Salt Lake City, Utah 84115
O'Reilly Art Publishing Co. (Calendars Only)	1902 N. Ruby Street Malrose Park, Illinois 60610
Planters Peanuts	Fund Raising Division Standard Brands Foods 625 Madison Avenue New York, New York 10022
Q.S.P., Inc. (Candy and Magazines Subscriptions)	P.O. Box 301 Pleasantville, N.Y. 10570
Miss Saylor's Unusual Candies	1001 81st Avenue Oakland, California 94621
Schindler's Peanut Products	4500 College Avenue College Park, Maryland 20742

Russell Stover Candies	1004 Baltimore Avenue Kansas City, Missouri 64115
Van Duyn Chocolate Shops, Inc.	739 N.E. Broadway Portland, Oregon 97401
Vernell's Fine Candies	1825 Westlake Avenue,N. Seattle, Washington 98109

CAMP FIRE GIRLS COUNCIL PRODUCT SALES SUMMARY

Gross Sales	1971	$11,734,000.00
	1972	$11,400,000.00
	1973	$13,000,000.00
Average Cost of Product		50% of gross sales
Average Gross Profit to Council (includes profits to individual groups of about 5% of gross sales)		50% of gross sales
Cost of Sales Campaign		0.4% of council gross profit
Royalty to Camp Fire Girls, Inc.		3% of cost of product

AVERAGE UNIT COSTS		SELLING PRICE
$.58 - $.60	-	$1.25
$.50 - $.54	-	$1.00
$.25 - ---	-	$ .50

Camp Fire Girls, Inc.
3/74/CB

THIS IS THE year of the tiger and Kelly Murphy and other Sunnyvale Bluebirds and Camp Fire Girls are using the Chinese lunar calendar symbol as the mascot for this year's candy sale effort, Jan. 25 to Feb. 13. The girls are trying to earn stuffed tigers of their own and at the same time raise money for the Santa Clara county Camp Fire Girl council and its resident summer camp program. If you would like candy and nuts delivered to your club meeting, contact Kay Poyer, 734-2399, or Donna McBeth, 241-3514.

Camp Fire Girls to sell candy January 31

Those little candy merchants dressed in red, white and blue will be knocking at your door starting on January 31, as the local Camp Fire Girls start their once-a-year fund raising campaign.

Traveling in pairs in their own neighborhoods, the girls will be selling the traditional chocolate covered mints which they have made famous.

Some people think that Camp Fire Girls are those little kids who sell candy, sing around the campfire a lot, tell wholesome jokes and try not to annoy anybody. Of course, they fit this very general description, but this past year the Willamette Council has been acclaimed nationally by the American Camping Association, the Associated Press, National Camp Fire Girls and Manpower, Inc. for their outstanding contribution towards community betterment in their innovative program for the handicapped and under privileged children.

Welcome the Blue Bird, Adventure, Discovery or Horizon Club girl that knocks on your door with their 9½ ounce box of chocolate mints, selling at $1.25. Buy several boxes they freeze beautifully. It is organizations such as Camp Fire Girls that Build the Future of this Nation by their worthwhile program for tomorrow's community leaders.

NO GAS SHORTAGE – Shown here in the pony cart are (from left) Bluebird, Kelly Roy and Camp Fire girl, Angie Bryant. These girls are showing you that nothing will stop them from selling those good Camp Fire mints we all like so well. So be on the alert for these girls and purchase a box of candy. And don't be surprised if you see Hambone (the pony, owned by the Robert Bryant's) pulling these girls down the street. (I-O Photo by Miller)

Itemizer-Observer, Dallas, Ore., Wednesday, Jan. 30, 1974

Bulldog determination

"Annie" the English Bulldog, owned by Mr. and Mrs. James Beaty of 505 Knoop Lane in Eugene, displays some real bulldog determination. According to her owners, the three-year-old canine [illegible] "real gung-ho" about Wilani Council of Camp Fire Girls. So much in fact that she has become a little attached to the Camp Fire cap normally worn by her young friend Katrina Kershaw. "Annie" is also 'dog-gone' crazy about candy. And it's a good thing, too, according to Camp Fire executive director Bette Barrette, who wants to remind the public that the council's annual candy sale is going on through Feb. 18. Boxes of mint truffles and toffees are selling for $1.25 per box. Proceeds from the sale support the council and Camp Wilani resident camp.

(Register-Guard photo by Paul Petersen)

Senator MONDALE. You may proceed, Doctor.

Dr. TURNER. I would like to say that Camp Fire Girls was started in 1910, and it is the oldest national, nonsectarian organization for girls.

If you stop and think of all the things a young girls must learn in order to be a woman today and think what it means to take an infant and help her become an adult human being who is responsible who is a member of a community, who is a creative person—then you realize that the whole scope of the humanizing process is something more than can be done in school and, in fact, in more than school and in the home.

With the social pressures of today, it is imperative that we have organizations such as Camp Fire Girls and Girl Scouts. We need this informal type of education.

Everything we do with Camp Fire Girls is based on sound educational and phychological practices including the guidelines for fundraising techniques when they involve girls.

We are very careful to provide these guidelines so people know why we have sales, and what we are doing for the girls involved.

Our safety guidelines are quite similar to the Girl Scouts, and I will not repeat them at this time.

We do have standards of accounting. We do require local councils to report to us. We do carefully scan all the products that are sold, and let the councils make the choice, because each council in each community is incorporated under the laws of that State and are independent corporations.

The girls are protected. They go in pairs. They go with adults. They do not go after dark. They are taught some of the ways that they should conduct themselves.

Handling money is a skill that every adult needs. The girls learn about money, its use, what it will do, how it will help the council, how it will help their own group.

It is a good habit and a good attitude to inculcate.

The girls, of course, are not paid for their services, although in many councils each group is given a small percentage of the amount sold. That goes for group projects. Sometimes it is for membership, sometimes for trips; again, it depends what the program of the group is.

Girls also learn to make decisions by determining how they can use this money wisely. They learn to make decisions by making them, and accepting the consequences, so that if the group does not sell anything, it does not get anything and misses the advantages.

We will be glad to answer any questions you have.

Senator MONDALE. Is the sale of Camp Fire candles, or whatever it is, the main source of revenue for your effort?

Dr. TURNER. Although the United Way across the country still provides a great portion of local council financial support, product sale profits provide 21 percent of the cost of council operation and program.

Senator MONDALE. What were the gross sales in the last year that you had figures for?

Dr. TURNER. $13 million for 1973.

Senator MONDALE. Do you have any idea how many girls were involved?

Dr. TURNER. Probably one-half million or more.

Senator MONDALE. A half million girls?

Dr. TURNER. Yes, sir.

Senator MONDALE. What did you sell the item for?

Dr. TURNER. $1 or $1.25.

Senator MONDALE. Depending on the community?

Dr. TURNER. That is right, and depending on the candy also.

Senator MONDALE. Where is this purchased? I gather from your exhibit here these candies or nuts are purchased locally, is that right?

Dr. TURNER. No, it depends. In some communities the local United Way insists that a local candy company be used, and in other communities the council is a free agent to make its own contract.

Senator MONDALE. Do you require bids? How are you sure you get the best price?

Dr. TURNER. We have to franchise the candy company, and there are approximately 17 candy companies across the country that we approve.

Senator MONDALE. When you franchise them, what kind of controls do you have to be sure you are getting the best price?

Dr. TURNER. Performance in the past; the history of the company; the kind of sales aids they have; their costs, in comparison to other candy campanies for the same product, or similar product; their quality control, and sound financial reporting.

Senator MONDALE. How are you sure you're getting the best price?

Dr. TURNER. That is based on the competitive market, sir.

Senator MONDALE. Well, if you are franchising, it is not.

Dr. TURNER. If we have 17 companies, and perhaps 6 of them would have a similar product——

Senator MONDALE. And they will tell the local councils what the price is?

Dr. TURNER. That is right, based on the quantities to be sold, the weight, and the quality.

Senator MONDALE. Do you find the local councils will take at least cost?

Dr. TURNER. Not necessarily; it depends. Each council has a committee of volunteers that studies the product and company, tastes the product, and makes a decision.

Senator MONDALE. I see. These franchise organizations will go to the local councils and try to sell them theirs?

Dr. TURNER. That is right. I brought with me a package that one of the candy companies has prepared. Each one will do something similar and these are sales promotion items that they provide to us.

Senator MONDALE. And may we have that?

Dr. TURNER. Yes.

Senator **Mondale**. You are reasonably convinced that the local councils do a good job of trying to get the best quality?

Dr. **Turner**. I would like the local council representative to respond.

Mrs. **Katzenback**. Here at the Potomac Area Council we do not sell candy, so perhaps this will not hit home as clearly as it would if I represented a candy sale.

We sell peanuts here because we sell at the end of April and in May, and you can imagine what would happen to candy in the trunks of cars in parking lots.

To be sure of having a good product, we have used the peanuts ourselves. However, we regularly—I would say once every 4 or 5 years—invite the representatives of the candy companies and the nut companies to come meet with our voluntary committees.

We compare, as Dr. Turner said, by taste, quality, the amount in the can, whether the product is well presented, and whether it would stand a chance of staying fresh for a long period of time.

So far, each time we have gone back to our own company, which is a local nut company. We like the feeling that we are promoting one of our local businesses, and we are absolutely convinced that the quality is unbeatable. The price also compares very favorably with the candy companies.

Senator **Mondale**. What did you sell these nuts for last year?

Mrs. **Katzenbach**. $1 a can.

Senator **Mondale**. What does the can cost?

Mrs. **Katzenbach**. The can cost us last year 59.25 cents per can.

Senator **Mondale**. So that the rest then is the revenue of the local council?

This year it is 59.50 cents per can.

Mrs. **Katzenbach**. Yes. It is not all profit for us because we share our profits with the girls in the form of prizes and rebates to the group treasury.

Senator **Mondale**. Let me ask Vikki, have you gone door to door selling-what is it, peanuts?

Miss **Ewing**. Yes.

Senator **Mondale**. Do you like that?

Miss **Ewing**. Yes.

Senator **Mondale**. Do you get a good reception when you go? Are people nice to you?

Miss **Ewing**. Yes, I think so.

Senator **Mondale**. Do you sell quite a few of them? Have you been pretty lucky on the sales? Do people buy them?

Miss **Ewing**. Yes.

Senator **Mondale**. What kind of questions do they ask when you come to the door?

Miss **Ewing**. Well, they ask when will the peanuts be coming in.

Senator **Mondale**. They want to know if you are going to get them, is that right?

Miss **Ewing**. Yes.

Senator **Mondale**. Do they ask you what you do with the money sometimes?

Miss Ewing. Yes, sometimes.

Senator Mondale. What do you tell them?

Miss Ewing. I tell them that we use it for the council, and to help get the things we need.

Senator Mondale. All right, Jamie, where are you from?

Miss Faircloth. New Carrollton, Md.

Senator Mondale. Local council there?

Miss Faircloth. Yes.

Senator Mondale. You have gone door to door, too?

Miss Faircloth. Yes.

Senator Mondale. One year, or more than one year?

Miss Faircloth. Since I was 6 years old.

Senator Mondale. What kind of instructions do you get from your leaders when you go? What do they tell you to do?

Miss Faircloth. We usually have a meeting before, in which we discuss it. We just pretend some of us are the people at the door, and we go up and we act like we are at the door at a person's house. That is how we are trained.

Senator Mondale. What do you do with the money when it is raised? Do they let the kids participate in what they want to do with it?

Miss Faircloth. Yes, we usually get together with our group, and we go camping.

Senator Mondale. Where do you go camping?

Miss Faircloth. In Virginia.

Senator Mondale. Never down to Minnesota?

Miss Faircloth. No, sir.

Senator Mondale. Where do you go? What camp do you go to?

Miss Faircloth. Well, we have gone to Pennsylvania sometimes. We have gone there twice.

Senator Mondale. How long do the camps last?

Miss Faircloth. Anywhere from a weekend to 1 week, sometimes 2 weeks.

Senator Mondale. Do you go by bus or private auto?

Miss Faircloth. No, we go in our parents' cars.

Senator Mondale. Are some children able to come along on the camping trips whose parents cannot afford to send them?

Miss Faircloth. Yes.

Senator Mondale. So you use some of the money to help pay for that, is that right?

Miss Faircloth. Yes, sir.

Senator Mondale. Are there many children like that?

Miss Faircloth. A lot.

Senator Mondale. Are they children who go door to door with you?

Dr. Turner. Senator, I do not think she would know, probably, because we try to keep that confidential. Many people in every camp will be there only because of camperships, and they could not attend otherwise, but it is not generally known how many.

Senator Mondale. Can you tell me roughly how many were assisted last year?

Dr. Turner. I do not have those figures here. I could get them for you.

Mrs. Katzenbach. I can tell you on the local basis that we have 7,000 girls registered in the council, and that we assisted about 100, actually 107, to resident camps last summer. Of course, Jamie, was not just talking about resident camps. She was talking about group camping, too.

Senator Mondale. What is the difference between resident and group camping?

Mrs. Katzenbach. The resident camp is a self-supporting operation that we run each summer at Prince William Forest where the girls pay fees to go, and we do offer prizes in the peanut sales to help girls go to camp, and also we have donations from various service clubs that also help girls go to camp.

Group camping is something you do with your leader in public camp grounds, or perhaps at a primitive site, and it is something we screen very carefully from the safety point of view. You have to be trained in outdoor training before you go, but it is a relatively inexpensive thing for them. However, everything costs. Peanut sales moneys are helpful.

Senator Mondale. So, in addition to providing scholarships or assistance to children whose parents are not able to afford it, essentially the whole camping operation is reduced in price because of the proceeds?

Mrs. Katzenbach. Yes, it provides the administrative backup.

Dr. Turner. Senator, I do not think it would be possible for us to have Camp Fire Girls as a national organization unless we had this kind of financial help. If somebody gave us that money it would be different, but we still think it important to let girls know they are earning part of the funds required in order to have this program. I would like to call your attention to the "Guidline Series on Finance" in your packet.

This is sent to every council. Each person who is in charge of a candy sale will have this material. We also brought some copies of local councils' material that is sent to every group leader; it tells them what to do; what not to do; what to expect; how to conduct the sale.

There is also a policy which prohibits our girls from raising funds, or selling anything, except in uniform for Camp Fire Girls.

Senator Mondale. When that uniform is on, there is only one thing they represent.

Dr. Turner. That is right.

Senator Mondale. Have you had any problems like that in the past?

Dr. Turner. We have had requests for girls to help out in various fund-raising ways.

Senator Mondale. When did you start this program?

Dr. Turner. 1910.

Senator Mondale. And the theory was that it was good for girls to go to camp and to have these opportunities. Do you find that that is as valid today as it was in years past?

Dr. Turner. The group experience is always valid. Most of the things we do are through the group. The opportunity to learn about one's self and be comfortable within one's skin is vitally important.

The whole sense of identification—of who you are, the attitude of being a person, and being worth something; the fact that there is an adult who will take time to listen to you, to talk to you; the ability to make a decision within a small group—these things are all valid, and this is one way of helping girls have these experiences.

Senator Mondale. Thank you very much for a most useful statement, and particularly, I thank Vikki and Jamie.

Dr. Turner. Thank you for the opportunity to be with you. May I leave our materials here?

Senator Mondale. By all means, please do.

Our next witness is Mr. Gerald Winters, founder, Youth Incentives, Inc.

Mr. Winters, you may proceed.

STATEMENT OF GERALD WINTERS, FOUNDER, YOUTH INCENTIVES, INC., ACCOMPANIED BY ALLAN MARX

Mr. Winters. Unfortunately, the group that I represent will not be here approximately 50 or 60 years from now.

If I had been asking questions sitting in your chair I would be interested to know when the Camp Fire Girls started 60 years ago if they encountered difficulties from local officials who are hostile to the very idea of their existence, and if so, how they overcame that hostility, but once anyone has been around 60 years you become an institution.

Basically, Youth Incentives was founded to fill a void that exists that the other organizations do not fulfill in the ghetto, and I think I would be better off to read this 4 or 5 pages of my prepared statement.

You cannot understand the importance of a job program unless you have a good understanding of the social, cultural and economic backgrounds that comprise the day to day environment in which hundreds of thousands of young people live in the ghetto environment.

While all the youngest workers are not poor, all of them are not black, but the vast majority are.

What is a ghetto?

A ghetto is crowed. There is a constant battle for living space between the people, the cockroaches, the rats, and filth and dirt and garbage all around.

The people that live there have one thing in common. It is their concern and daily fight for survival. There is hunger, malnutrition and disease.

Daily, a young person comes in contact with stolen merchandise, drug addicts, drugpushers, pimps, whores, numbers and other forms of gambling.

There is something even more frightening than the ghetto and its physical environment. It is the way it affects a youngster's thoughts, his attitudes, the way he thinks and what he believes.

We initially learned by copying the actions of people around us, our parents, brothers, sisters, friends and neighbors.

The ghetto environment provides poor, and often hard examples for the youngster to follow. He has hopelessness, fear, frustrations, anger. These are the current attitudes of the people in the ghetto. Most of the people have lost their pride and self respect. They have no self confidence, and few, if any, skills. They have no real goals or objectives.

In the ghetto there is only one point of view, the opinion of the bully, the guy with the biggest fists. The ghetto is a jungle where strength rules, and not reason.

Your example of success in the ghetto are the drugpushers, the thieves, the gamblers, the pimps and racial terrorists.

Except for the field of sports and entertainment the ghetto youth does not see too many ways in succeeding in today's world.

The ghetto environment breeds a mental attitude and way of thinking that is passed from one generation to the next that becomes more difficult to bridge.

Youth Incentive was founded and provided, one, money; two, work experience; three, exposure to a different environment; four, an opportunity for building one's character; five, if a boy is kept busy he is kept out of trouble.

There are side benefits to a job program. The effect on the family and the young involved, the recreation and educational activities financed as a result of the job program.

Money can be exchanged for clothes, food, a book, a movie ticket. We are talking about youngsters from a ghetto, and money is difficult to come by.

Middle class youngsters use money for recreation, dates, and such. Ghetto youngsters use their money for things they need, clothes and food. Not only for themselves, but for their families as well. Many of the youngsters help out with monthly rent and grocery bills.

The fact that a youngster has their own money keeps him out of trouble.

You can go skating, go to a movie, a hamburger stand. I have personally witnessed youngsters come from a field trip by a bus, and the bus will take the boys out on Long Island to see the green grass. The bus will come back home and drop them off at 9 or 10 at night.

Are they going to go home? Home for them is not a warm place. They hang out on the corners.

Since I have prepared this, I would like to at least have it heard.

Senator MONDALE. What was that? What did you say?

Mr. WINTERS. I said that since I have prepared this, and since I came voluntarily, and since you have four or five people back there waiting to put flames into me, and since I came here voluntarily, I should be given the courtesy of your listening to what I have to say.

If not, I will leave.

Senator MONDALE. Proceed.

Mr. WINTERS. I am sure the ghetto youngster can write. I have seen these youngsters come from the field trips, and if you know what it is like, you are one of the few.

I have seen youngsters come from ghettos, and I have seen them snatch purses, and go into stores and steal merchandise, and, sure, they can go play basketball, and field games, and they are in the same position, they have nothing.

If you gave a youngster money he has an alternative. When a youngster stands around on the corner, he is standing on the corner because he knows nothing else to do.

Where does he have to go?

Some of the contact that the youngster has with the police comes from telling him to move on, and he ends up in juvenile hall because he disobeys a policeman, and probably something like resisting arrest, or other nonsense charge, and it came about because the youngster had no money and nowhere to go, and the policeman told him to move on one time too many.

When the youngster is working, he is not in the neighborhood to be exposed, and a boy kept busy is a model that speaks by itself.

You cannot get beat up, and you cannot be told to move on by a policeman, and the first advantage is money, money that the youngster needs, and the second is work experience.

You are probably wondering what kind of training a youngster gets from selling a box of candy or some other product. Offhand it doesn't seem like much of a job. Obviously we are not giving the kind of training you would get in an apprenticeship class for one as cleaning up stores, and to any one living in the ghetto knows that the trades are nortorious for denying minorities the opportunity to enter them even if they did receive the training in school. When you compare the job program with delivering of newspapers, and cartering of groceries or even delivering laundry, and a job such as cleaning up stores, and to any one living in the ghetto know that teenage jobs are almost nonexistent. The youngsters are in a critical stage that determines if a youngster will develop into a law abiding citizen, or develop the pattern of behavior that will result in a life of revolving incarceration.

This is why we like to work with boys at 13, and we try to prevent them from this. What is the advantage to a sales job?

Do you know many people are involved in saleswork than any other profession? It has been said that if you can sell, you can get a job any time, and any place.

Look in the classified section of the newspaper, and salesmen are in demand. He learns how to point out the value of the item he is selling, and as the Camp Fire Girls said, their girl gets experience in handling money, and he learns the importance of position, posture, and all this adds up to experience, and no matter what the youngster does in the future, he is going to learn from what is is doing.

The confidence gained, from talking to new people, makes it easier to approach a prospective employer, and previous sales counts, and impresses a lot of people, and by selling a box of candy, that is a basic skill being taught.

The experience gained from selling will help prepare a youngster for the future. We have founded a large percentage of the boys that work on the job program, quit after working 1 month, 6 weeks, or 2 months, they quit working, and catch a bus downtown and go to the shopping center and get a job in a restaurant, or something they would never dream of doing before working with a job program.

The youngsters involved in the job program—it is a learning experience itself, and for those who have never known any other environment, and this changes a lot of their ideas about white people.

I think everyone is aware that there are those in the black community today who teach that the white man is the black mans enemy.

When a youngster hears these things, who and what is there to counter it? We counter it because we sell mainly in white neighborhoods, so the young men go out and they knock on the door, and they see white people who are friendly and who are nice to them whether they buy or not. The young men learn that there are communities where people are not afraid to leave bicycles on their lawns overnight. They are not worried about somebody stealing them. They learn that the majority of people are friendly. They find that the streets and neighborhoods are clean, that there are not drugpushers, prostitutes, or whores standing on the street corners. They see a way of life different from the ghetto. Maybe for the first time they have a desire to get out of the ghetto. Not only do the boys who actually do the selling get to see that all white people are not evil like they have been taught, but the white people in return get to see that blacks are not lazy and just want to live off welfare.

The ability to sell begins to develop pride in a person, and self confidence, and a better way of life. We pay youngsters on a commission basis, and this way they learn, and they are paid according to their ability, and it does a lot for your self respect and pride, to know that you are earning your own way, and you are awarded for your ability.

A youngster begins to question and doubt many of the things that he has learned within the ghetto. As a young man's knowledge expands, about other communities, and he finds other youngsters looking up to him, not because he has a job and money, but because he knows more about what is happening, and begins to develop a sense of responsibility, and applies himself.

When you are working with people, success is measured by individual progress and achievement. This is not an assemblyline progress where you turn out two well adjusted individuals every

24 hours. You cannot take any youngster from the ghetto and immediately solve his problem.

What we can do is provide him with an opportunity for self improvement at a time when most youngsters his age have a lot of time on their hands and not much to do. At a time when the attitudes and ideas are being formed that will determine the course of his life. At a time when a lot of youngsters respond to the ghetto environment making mistakes that lead to juvenile delinquency, dropping out of school, drugs and a pattern of life that becomes harder and harder to break. All the youngsters who enter our program benefit from working on a day-to-day basis for as long as they continue to work. The long-term effect on any individual is never certain. We can't promise that every youngster who takes part in our program is going to develop the traits and characteristics we try to instill. We cannot even promise that a large percentage of these youngsters will eventually climb out of the ghetto because of our efforts, but if just one makes it, would you be able to tell him that the effort we put forth was not worth the results, or would you feel the immeasurable pride and satisfaction that we feel?

I have two other things, and I will disregard the rest of my notes.

I did not know what this subcommittee wanted. I would have come and brought examples, and I can tell you of one, and his name is Herbert Fletcher.

When he first became a member of Youth Incentives, he wanted to be a pimp, because that was the only example of a success that he ever saw, and now he wants to work for Youth Incentives.

If what we are doing did not benefit the boys, and did not benefit the people in the neighborhoods, we would not go in night after night after night and come out alive.

We are talking about the worst ghetto, a ghetto like Roxbury, Mass., and when all the papers were screaming about black youths setting a woman on fire, and we had started a job program in Boston, and at that same time, and nothing happened to our counselors, because the people know the youngsters would benefit.

The purpose of any organization is to serve its members. The Girl Scouts, and they take their members camping. What Youth Incentives decided to do with it's money was to give it back to the youngsters that raised the money.

That decision the organization made, and benefited the youngsters more than if a different decision had been made.

I do not have anything else to say.

Senator MONDALE. I thank you very much.

Mr. KATZ. Mr. Winters, what we would like to do is identify the type of enterprise that the Youth Incentives was, and identify it, if you will.

First of all, I have a copy of an application filed for Youth Incentives, Inc., in care of——

Mr. WINTERS. I do not recall signing this document. My name is on the document.

It does not look like my signature. What it is is an exception application, and if some people donated money, and it is saying that they could write it off on their income taxes, and to the best of my knowledge, this was never used, and I can think of an instance where someone may have donated money.

Mr. KATZ. You obtained youth taxes, did you not?

Mr. WINTERS. What do you mean, did I?

Mr. KATZ. The Youth Incentives.

Mr. WINTERS. Yes, Youth Incentives did seek a tax deduction.

Mr. KATZ. Were you chairman of the board?

Mr. WINTERS. I was one of the incorporators, and the person filling out the application would assume I was going to become chairman of the board.

Mr. KATZ. This is a poor copy, but it is a copy from the office of the Record of Deeds of the District of Columbia, and will you look at that, and according to Youth Incentives' stationery it is a District of Columbia corporation, and incorporated in 1968, and that would be the articles of the corporation.

Mr. WINTERS. It appears to be our corporation.

Mr. KATZ. Now, Mr. Winters, this is a copy of another exception application involved with Internal Revenue, and I would like to look at this at the same time, and this is from the State of Minnesota, the Department of the State Articles for Incorporation of Youth Incentives of Washington, D.C., a Minnesota corporation, and that is a corporation for which that second exemption is filed, is that correct?

Mr. WINTERS. I am sorry—what did you say?

Mr. KATZ. I said that the last two documents that I gave you, one, an exemption application for a group called Youth Incentives of Washington, D.C., and the second is the copy of the Minnesota corporation of Youth Incentives.

Do you recognize those two documents?

Mr. WINTERS. Yes.

Mr. KATZ. Youth Incentives of the District of Columbia Corp., for which an exemption statement was filed, and it argues that the offices of the District of Columbia are located at 918 16th Street NW., in Washington. And did Youth Incentives have a place of business there?

Mr. WINTERS. I think my attorney can answer that question.

Mr. MARX. This was the corporation trust company offices that the organization used to incorporate, and there was no office in Washington.

Mr. KATZ. And the Youth Incentives, just out of curiosity, why was the Minnesota corporation called the Minnesota corporation in Washington, D.C.?

Do you recall why that name was chosen?

Mr. WINTERS. I cannot remember all the reasons for why that was done.

Mr. KATZ. It seems strange to have a Youth Incentives of Minnesota and you have a District of Columbia corporation called Youth Incentives, and a Minnesota corporation called Youth Incentives of Washington, D.C., and maybe their corporation had a place of business in Washington, D.C., and it seemed unusual to call it that.

Senator RANDOLPH. Well, we should have an answer, Mr. Chairman.

Mr. WINTERS. I do not know what he is asking me.

Senator RANDOLPH. I will ask you for an explanation, and we want the facts.

Mr. WINTERS. To the best of my knowledge the reason a second corporation was formed is that in the State of California I know in part, and I do not remember all the facts clearly, so therefore, I am grasping for facts as I remember them and that was a long time ago. In the State of California, the name "Youth Incentives" could not be used because there was another organization that had a similar name. In order to be registered in the State of California, another corporation had to be formed. We wanted to make sure that both corporations had a tie-in, so when the corporation was formed in Minnesota we called it Youth Incentives of Washington, D.C., Inc., so there would be a tie-in. The name, Youth Incentives of Washington, D.C., Inc., could qualify in California.

Senator RANDOLPH. Mr. Chairman, if I may interrupt.

There may be a plausible reason why you did this in accordance with the law, and no question that when I have questions I want clarifications of points that may be at issue. I think, perhaps, in this instance, because the witness has said that he is grasping for answers, and how many years ago was it?

Mr. WINTERS. 1969.

Senator RANDOPH. That is rather recent.

Mr. WINTERS. It is not recent if you have lived through the experiences that I have lived through in the last 4 years.

Senator RANDOLPH. I have no knowledge of those matters. I just came into the hearing room. I would believe that the witness might be given the opportunity, Mr. Chairman, to document this clarification I have asked for, the witness or the attorney, and exactly why it was done, and valid reasoning.

Senator MONDALE. We will accept the testimony by letter, or anything you wish to add, facts or details, and submit those to us before you go, and that may remain part of the record.

Senator RANDOLPH. Are you saying to me, Mr. Winters, by indicating to me problems that you have had in the last few years that governmental bodies or whatever constituted authority may be involved to have been in the process of investigation of your operation which you believe to be unfair or have there been others who are, who had a program of harassment, is that what you are saying for the record?

Mr. WINTERS. When I referred to things that had happened to me, experiences that had happened to me during the last 4 years, I was not directly referring to harrassment by Government officials or Government bodies. I was referring to another fact.

Senator RANDOLPH. Had it been explained before I came to the room, Mr. Chairman?

[Mr. Mondale indicates negative.]

Senator RANDOLPH. Do you want to place that on the record?

Mr. WINTERS. No, sir.

Mr. KATZ. I might say that Mr. Winters has appeared here voluntarily. We would say there have been some questions raised in the past about some of these activities and we wanted to welcome this opportunity to appear in this public forum to have the truth come out and get in. Is that a fair statement, Mr. Winters?

Mr. WINTERS. Yes, sir.

Mr. KATZ. Now, I have here a copy from the State of New Jersey, a copy of articles of incorporation for a third corporation. It appears to be that.

Do you recognize that document?

[Document handed to witness.]

Mr. WINTERS. Yes, sir.

Mr. KATZ. Maybe you should look at this together with another document here.

[Document handed to witness.]

Mr WINTERS. Do you want to know why this was formed?

Mr. KATZ. Well, I will ask you that. I will give you this application. Yes, why don't you go ahead and tell us what that is.

I have also given you a copy of an application filed with a questionnaire regarding proposed incorporation filed with the New Jersey Department of Institutions and Agencies for Youth Incentive, Inc., which I assume goes along with that, with those articles of incorporation, is that correct?

Mr. WINTERS. Yes.

Mr. KATZ. The question I have was, why this third corporation was formed.

Mr. WINTERS. To the best of my knowledge the State of New Jersey does not recognize out-of-State nonprofit corporations and required you to form a corporation in the State of New Jersey. And, therefore, had to form a corporation in the State of New Jersey.

Mr. KATZ. Now, Mr. Winters, on the articles of incorporation for the New Jersey corporation, the place of business stated in the fifth clause there is 150 Lake Road, Green Pond, N.J. Was there actually a place of business there?

Mr. WINTERS. Sir, which document are you referring to?

Mr. KATZ. The articles of incorporation?

Mr. WINTERS. That is where Mr. Gunlack lived.

Mr. KATZ. Who?

Mr. WINTERS. Mr. Gunlack.

Mr. KATZ. Who is that? Is he one of the incorporators?

Mr. WINTERS. Not according to this document here. It says here that Mr. Gunlack is designated the agent of this corporation upon whom process against this corporation may be served?

Mr. KATZ. He was a registered agent?

Mr. WINTERS. It says he is designated the agent of this corporation.

Mr. KATZ. All right. Who——

Senator RANDOLPH. I want to ask a question at this point in connection with the New Jersey address and the person involved. I don't know the operation under which we have proceeded, but Mr. Winters, how many people would be involved in let us say the execution or distribution programs of your organization?

Mr. WINTERS. I do not understand what you are asking me, sir.

Senator RANDOLPH. It is a very straightforward question. It is not involved. I was asking you how many persons are associated with you in the organizational structure of Youth Incentives.

Mr. WINTERS. You are asking me this at the time I was still associated with Youth Incentive?

Senator RANDOLPH. Yes, that's true. You are appearing here as I understand by the witness sheet as founder of the organization, is that correct.

Mr. WINTERS. Yes. But I resigned from the board of directors. I don't remember the exact date.

Senator RANDOLPH. How long ago, then?

Mr. WINTERS. It was sometime between—when I resigned was between sometime, between when it was incorporated and March of 1971.

Senator RANDOLPH. When was it incorporated?

Mr. WINTERS. September of 1969; September 18.

Senator RANDOLPH. My question then is a valid question. How many persons were associated with you in 1969? You gave us the name of a gentleman here in New Jersey and I ask you as you began this work how many of you would be under the umbrella of Youth Incentives at that time?

Mr. WINTERS. There was—are you asking me how many paid executives were working? Is that what you mean?

Senator RANDOLPH. I am not certain that I want to ask it in a special way. If you want to make it on that basis and reply that will be agreeable.

Mr. WINTERS. I don't know the answer to that question.

Senator RANDOLPH. Well, is this person——

Mr. WINTERS. Mr. Gunlack was not paid; no.

Senator RANDOLPH. Not paid. Now, how many were paid? Did you say you could not recall?

Mr. WINTERS. There was not, to the best of my knowledge, anyone paid for heading up a local chapter in New Jersey. What I mean by that is I don't think anyone was paid for being just the head of a chapter, and that's all he did was sit back and play a role. He would be paid for being the manager, or he would be paid for running a summer camp, or he would be paid for actually seeing that an operation was carried out, but no one was paid, to the best of my knowledge, just because they had the title "President" or anything like that. Tom Wade was paid when he was president of Youth Incentives, but he was president of all of Youth Incentives. He wasn't paid just because he was head of a local chapter in New Jersey, to the best of my knowledge.

Senator Randolph. Well, at the time of the chapter in New Jersey or any other State was brought into being, you, as I understand at that time, were heading this overall organization, or am I in error?

Mr. Winters. No, I did not head the organization.

Senator Randolph. You had resigned then before that date in 1969?

Mr. Winters. I was an original incorporator.

Senator Randolph. Yes.

Mr. Winters. As I stated earlier, on the original application it appears to be my signature for the exemption. I do not recognize it as such. I do not ever recall being chairman of the board of Youth Incentives. Maybe the person who applied for the exemption assumed I would be. I have minutes of the first board meeting here which I read last night. Thomas Wade was appointed temporary chairman and Nicholas Knight was elected chairman of the board.

Senator Randolph. What was the business of those two men? The two you just now mentioned. What was their business at the time they joined this effort?

Mr. Winters. Nicholas Knight—I think he worked for the telephone company in the computers. And now he works, I think, for the Franklin Mint. He was not paid. He served, you know, as a volunteer. It states in the bylaws the board of directors could be paid $100 for attending a board meeting, but they waived that.

Senator Randolph. Any other gentlemen?

Mr. Winters. Tom Wade was actually heading a local chapter of Youth Incentive.

Senator Randolph. In New Jersey?

Mr. Winters. I don't know. He did later in New Jersey. In fact, he was the—I just don't know when, you know, like there is a lot of days here, a lot of times and Tom, like he moved around from location to location. I know for one summer—I could look in the notes and find out when he was in New Jersey. I think he was head of it, you know, at that time in New Jersey, because there was a summer camp held in New Jersey and I know he was the one that signed the lease for the summer camp. He was the one that organized the summer camp, and you know, but I can't, you know——

Senator Randolph. The only reason I am pursuing this, Mr. Winters—I am not the belligerent member of the subcommittee—you have come as a witness and I am simply asking questions.

Mr. Winters. Yes, sir.

Senator Randolph. It seems to me you said the structure at the time it was brought into New Jersey, you were no longer associated with the undertaking. If you said that or not, say it. I am trying to determine. But you have been able to talk about these two persons in question, in part what they were doing, how they came to be a part of the organization. So I am trying to identify you as with the organization then or not with the organization.

Mr. Winters. I cannot recall when I resigned from the board of directors of Youth Incentives. But even once I did resign I continued to know what they did.

Senator RANDOLPH. Well, if you did resign on a certain date which you do not remember, to whom would you address your letter of resignation?

Mr. WINTERS. I would send it to the chairman of the board.

Senator RANDOLPH. Who was the chairman of the board at that time?

Mr. WINTERS. Nick Knight.

Senator RANDOLPH. That is the man working as a volunteer in New Jersey and knew your organization?

Mr. WINTERS. Nick Knight did not work as a volunteer. Nick Knight was on the board of directors of the various Youth Incentives chapters. What I meant by this was that Nick Knight did not actually go to New Jersey and actually do physical work in relationship for Youth Incentive in New Jersey. He was on the board of directors, and served on the board of directors, and as being on the board of directors he was a volunteer for that. He was not paid for being on the board of directors.

Senator RANDOLPH. Then you did resign though by letter is that right? And that would be a part of the record, would it not?

Mr. WINTERS. I looked for the records and I could not find them. My copies of the records that I have. There was a fire that completely destroyed the building in which part of Youth Incentives records was kept.

Senator RANDOLPH. Is Mr. Knight living now?

Mr. WINTERS. Yes.

Senator RANDOLPH. Is he engaged part-time or what time does he give to the programs such as you once founded and headed?

Mr. WINTERS. At the present time Mr. Knight is no longer associated with Youth Incentives. He resigned.

Senator RANDOLPH. Is Youth Incentives now a functioning organization?

Mr. WINTERS. It is in the final stages of ceasing to function.

Senator RANDOLPH. Thank you.

Mr. KATZ. To clarify, Mr. Winters, the application for the State of New Jersey which I think you still have, dated March 30, 1970, does list your name as a member of the board of directors. But the articles of incorporation presumably were issued sometime after that, do not list your name as a member of the board of directors. So I presume between the filing of the New Jersey application and the issuance of the articles you must have resigned. Does that sound reasonable to you?

Mr. WINTERS. Sounds reasonable.

Mr. KATZ. All right. Even though you resigned from the board, you did—am I correct in stating that even after you resigned then you continued to, on a personal basis, know the persons involved and have some dealing with the Youth Incentives?

Mr. WINTERS. Yes, sir.

Mr KATZ. So hence your knowledge of what happened after?

Mr. WINTERS. Yes, sir.

Mr. KATZ. Now, Mr. Winters, this is a copy of the certificate designation an office place of business or domicile filed with the State of Florida for Youth Incentives and signed by Thomas Wade, secretary. It was filed, according then to the second page, the 25th day of September 1969.

Was Mr. Wade secretary of Youth Incentives at that time, do you recall?

Mr. **Winters.** I do not recall.

Mr. **Katz.** Now, according to this certificate Youth Incentives, Inc., duly organized and existing under the laws of the District of Columbia with its principal place of business at the City of New York, County of New York. Did Youth Incentives ever have a place of business in the city of New York?

Mr. **Winters.** It was affiliated with the New Jersey organization.

Mr. **Katz.** A charter was filed?

Mr. **Winters.** Right.

Mr. **Katz.** Would that—that is Brooklyn, isn't it?

Mr. **Winters.** Yes, sir.

Mr. **Katz.** Did Youth Incentives ever have an office of—is that just——

Mr. **Winters.** When they first started that was, you know, when we were in the stages of incorporating.

Mr. **Katz.** Now, according to this certificate Youth Incentives established an office in the 13th floor of the Florida Title Building in the city of Jacksonville.

Does Youth Incentives actually have an office there at that time?

Mr. **Winters.** That is a corporation in trust who was a designated agent for Youth Incentives.

Mr. **Katz.** According to the New Jersey application that was filed, Youth Incentives had offices at 9300 Dixie Highway. Did Youth Incentives actually have an office there at that time?

Mr. **Winters.** Yes.

Mr. **Katz.** Mr. Winters, this is a copy of the request for approval of certificate of incorporation filed with the State of New York Social Welfare Board for Youth Incentives, address 2119 Wauntagh Avenue—am I pronouncing that correctly?

Mr. **Winters.** It is Wauntagh.

Mr. **Katz.** Thank you.

Wauntagh Avenue, New York. Apparently Youth Incentives was seeking in May of 1970 to incorporate in New York. Did Youth Incentives—Do you know if youth Incentives ever actually incorporated in the State of New York or whether this request was ever granted?

Mr. **Winters.** Excuse me, sir. No, sir, they were never incorporated in the State of New York.

Mr. **Katz.** This address of 2119 Wautaugh Avenue, was that actually a place of business of Youth Incentives?

Mr. **Winters.** Yes, it was.

Mr. **Katz.** Who owned that?

Mr. **Winters.** I owned the building.

Mr. **Katz.** So even though you had resigned from the board apparently before this—this is May 1970—you allowed them to use——

Mr. **Winters.** I didn't say I resigned before May 1970.

Mr. **Katz.** I'm sorry. I didn't mean to trap you, Mr. Winters.

BEST COPY AVAILABLE

Mr. WINTERS. I am sure you are trying not——

Mr. KATZ. You are wrong Mr. Winters.

Do you recall whether you were still a member of the board at this time?

Mr. WINTERS. I have stated for the record that I resigned sometime, that I looked at the minutes of Youth Incentives. I was a board member, I was an original incorporator. For the second board meeting I was not a member of the board. I have looked for——I have tried to find my letter of resignation. I have not been successful. Perhaps you have a copy of it.

Mr. KATZ. No, I don't. The Senators are interested in, as they have stated, in some of the details of Youth Incentives and I am just trying to provide them for you. The New Jersey articles of incorporation filed on the 14th day of July 1970, so previous to that I think we have established that you resigned from the board.

Mr. WINTERS. First of all it seems to me that you are totally confusing me. I have stated for the record I do not know when I resigned then you keep referring back to the documents I don't have. If you are trying to trap me, or something, I refuse to answer any other questions on the grounds they tend to incriminate me.

Thank you.

[Witness stands aside.]

Mr. MONDALE. Our next witness is Mr. Green. We would like to have our next witness, Mr. Green, coordinator of charitable solicitations, department of state, State of Florida. Please proceed.

STATEMENT OF ROBERT GREEN, COORDINATOR OF CHARITABLE SOLICITATIONS, DEPARTMENT OF STATE, STATE OF FLORIDA

Mr. GREEN. Thank you.

Honorable chairman and members of the committee, the secretary of state wishes to thank you and your committee for the opportunity to give to you information on behalf of the State to cooperate with your inquiries on the sales on a nationwide basis on the subject of inquiry and known to us.

Youth Incentives, Inc. was registered and had a certificate of registration under the charter until March 1971. At this time they failed to comply with the requirements of the Charitable Funds Act and the certificate was not renewed.

The organization apparently ceased to operate under this name and later we found that the same members were operating Inner-City Youth Corp. The State of Florida required disclosure of the agent of the organization. Failure to comply means revocation, suspension, or denial of the certificate. The latter was taken on Youth Incentives.

On January 1972 the secretary of state ordered a statewide investigation on candy sales. At this time several organizations came out soliciting through August 8. Until this date the investigation is continuing on the following basis:

We had endorsed a cooperation of several State agencies of law enforcement, agencies and acting as a coordinating group. At this time legal action has already been taken against Youth Advancement, an organization headed by Mr. Russell O'Shea, to whom has been issued a fugitive warrant.

Also we are in the process of filing in the State office in Dade County against Youth Initiative, an organization headed by Mr. McIntire. This organization happened to solicit my home on January 1974.

Senator **Mondalle**. To their great regret. Proceed.

Senator **Randolph**. What do you mean by "solicitation"?

Mr. **Green**. Selling under the Youth Funds Act of the State of Florida solicitation of selling of candies for a group which lead an individual or person to believe that there is a terrible purpose behind it. That is solicitation. The selling of candies or services.

Senator **Randolph**. Were you there when the seller—either boy or girl—came to your residence?

Mr. **Green**. Yes, sir.

Senator **Randolph**. And what item or items were being sold?

Mr. **Green**. It was peanut brittle.

Senator **Randolph**. I like peanut brittle.

Mr. **Green**. I like it too when it is in good condition.

Senator **Randolph**. You mean this was all cracked and into little pieces?

Mr. **Green**. Cracked and many times stale and loose like it had been in warehouses for a long time.

Senator **Randolph**. You are saying it was not good quality?

Mr. **Green**. That's right.

Senator **Randolph**. And was being sold at a price perhaps that would be asked for good quality peanut brittle, is that correct?

Mr. **Green**. Let me put it this way. This particular peanut brittle I think was 49 cents in the stores in Hialeah and I think it was sold or given over at a $1.50.

Under the Charitable Funds Act that is charity one can check prices. And we have black children approaching you and the public immediately realize there is something, some reason for the prices—It is overpriced.

Senator **Randolph**. You were in the residence as you indicated?

Mr. **Green**. Yes, sir.

Senator **Randolph**. Did you ask for what charity would the money be used that was the profit?

Mr. **Green**. Well, they claimed that is to keep them out of the streets, to promote a youth center, to help them to go to Disney World, things of that kind.

If I may, Senator. During my investigation of—not this particular group but a similar group—we went to the place of that so-called youth center and after we reached the place the youth center was in the back of the warehouse and there were three pinball machines, two of them were inoperative and for the third they charged the kids a nickel. We have youth centers in the State of Florida and on the State, in the State that is not a youth center.

Senator **Randolph**. You mean the operation of pinball machines?

Mr. **Green**. Well, what they give to the kids. They don't give nothing but they claim to the public that it is a youth center. It is no such thing.

Senator **Randolph**. Would you say, Mr. Green, that the organization, the methods of operation were fraudulent?

Mr. **Green**. They are in that direction, Senator.

Senator **Randolph**. You mean they are on the ragged edge of illegal operation?

Mr. **Green**. I am not a lawyer but I think for fraudulent you have to prove intent. That is one of the things that perhaps we will be able to prove. There is a fraudulent intent on the public.

Senator **Randolph**. In other words, it was a fringe operation at best, is that right?

Mr. **Green**. I beg your pardon?

Senator **Randolph**. A fringe?

Mr. **Green**. Yes, sir.

Senator **Randolph**. Thank you, Mr. Chairman.

Senator **Mondale**. You may proceed.

Mr. **Green**. There is a big difference between the candy sales made by Boy Scouts, Girl Scouts, or school organizations. Since they are closely supervised by adults and perform within the neighborhood for an organization which is registered and known to each one of them. The organization in question, Youth Incentives, Inc.—I may add over here to my presentation, Inner-City Youth or the other ones similar, approach these black children from neighborhood to neighborhood and in some in instances from county to county and many times are left abandoned. Supervision is not exercised. Since there are so-called supervisors who leave the children at various locations and 2 or 3 p.m. and do not see them until 8 p.m. at which time they pick them up. This type of operation—

Senator **Randolph**. Just a moment. Is this in the summertime when children are in school or is this at other times of the year?

Mr. **Green**. It is when the school time is after school; otherwise, during vacation time normally between about noon time and 11 o'clock.

Senator **Randolph**. But school is in session at the time you are indicating this pickup of children, if it is made, is at 8 o'clock at night, is that what you're saying?

Mr. **Green**. The supervisor takes them back at 8 o'clock at night.

Senator **Randolph**. What are the ages of these children who are selling?

Mr. **Green**. We have found out that they range from 8 years old until 14 or 15 years old. Normally, until we brought in the child labor division of the department of commerce in the State of Florida they were operating with children below 12 years old. Now, lately they are starting with 14 years old since under the child labor law is punishable to conduct any solicitation with kids under 14.

Senator **Randolph**. Mr. Chairman, how widespread is the situation being described by the officer from the State of Florida? Is this widespread throughout the country, Mr. Chairman?

Senator **Mondale**. That is one of the matters we had hoped to establish by the previous witness. I think it may be significant to note that present here today are representatives of the State of Florida, North Carolina, New Jersey, Illinois; and that the Youth Incentives organization was prohibited from doing business in the State of Minnesota by the attorney general. We hoped to establish facts which would help us better understand the scope of these activities.

The State of Florida has one of the finer efforts in the country and has been into this matter and will help show us how it works and what we are trying to deal with and the difficulties they have and in the sense that these are the pioneer hearings.

Senator **Randolph**. I commend you, Mr. Chairman, and members of the staff working on this subject matter and the background necessary in order to even bring a hearing into focus. I am, of course, shocked as we are shocked repeatedly through the years by the use of children not to beneficial purposes but just the opposite.

Mr. **Green**. Right.

Senator **Randolph**. And, of course, I hesitated to say it but I remember as a member of the labor committee of the House of Representatives in 1938 when we were trying to write the first Labor Standards Act that we were trying to have certain conditions of labor for children and of course even to establish a 25 cents an hour minimum wage in interstate employment. It is difficult to believe but that is what we were working on. That was it. At that time we found the exploitation of children in industry and in business. Apparently some 35 years later we are finding the exploitation of children in let's say established businesses but apparently in what I would call hit-and-run and fly-by-night businesses of one type or another, the selling of inferior questionable items and the money to those who sell going to purposes which are not in keeping with the high sounding terminology of the organizations which were involved. Is that a fair statement, Mr. Green?

Mr. **Green**. Yes, sir.

Senator **Randolph**. Thank you, Mr. Chairman.

Senator **Mondale**. What we are doing in these hearings is reviewing efforts to raise money from the public in the name of children. Children cannot protect themselves and this committee on children and youth is charged with being a forum in which their concerns can be properly aired and better understood and where necessary legislation can be fashioned to protect them.

Mr. **Green**. We like that.

Senator **Mondale**. Well, we very much are impressed by your work, by the leadership of the Governor of the State of Florida in this field and we are interested in the sense that the work you are doing is pioneering in the same way to protect the children.

So if you would, proceed.

Mr. **Green**. Some contention is that this type of operation does not create in children any encouragement to work but instead to peddle instead.

Also their supervisors realize and as they become knowledgeable of the operation this is one of the easiest ways of making substantial money in the State of Florida. The violation is as stated in Florida statute 496.11, subsection 2. No person shall in connection with solicitation or contributions for or the sale of goods or services of a person other than a charitable organization misrepresents or misleads any one by any means, practice, or device whatsoever to believe that the person who has such solicitation of sale is being conducted is a charitable organization or the procedure such, or solicitation of sale to be used for charitable if such is not a fact.

Second, we are facing not only violation of the law but moral violation as well. From our findings we realize this is not something localized in Florida only but well spread all over the Nation and many times under the same corporate offices.

With that, I brought from the secretary of state all the files pertaining to our investigation since Youth Incentives to the present organization Inner-City Youth Corp, Youth Initiative or Youth Advancement and I will gladly answer any questions you members of the committee may have.

Senator MONDALE. We appreciate having as much of that as we can for our files.

Mr. GREEN. You are welcome to it.

Senator MONDALE. Are you in charge of the office which enforces these laws?

Mr. GREEN. Yes, sir.

Senator MONDALE. And have you been in charge of the investigation of Youth Incentives?

Mr. GREEN. I have been in the investigation of Youth Incentives from the time that Youth Incentives did not renew their certificate which was in 1971.

Senator MONDALE. Now, it is your understanding that following the failure to renew they still conducted business in the State of Florida?

Mr. GREEN. Let's put it this way, Senator. We found that when the president of the corporation, Thomas Wade,—another gentleman came to our office and they were informed after the presentation of their application that the financial reports supplied to the State was not in accordance to the requirements of the law, that is not being audited and under the opinion of an auditor, a certified public accountant, the organization seemed to be in that type of operation. Suddenly we received reports from South Miami police department that Negro children had been taken into custody together with a supervisor and that the station wagon was only used to transport the kids was registered to a person named Ron Kelsoe and that they were soliciting in the name of Youth Opportunities Unlimited.

Senator MONDALE. Were they registered?

Mr. GREEN. No, sir, they were not.

We opened an investigation on that subject and here we have concluded that Ron Kelsoe used to be part of the Youth Incentives who came into this other organization, too.

Senator MONDALE. We have several documents that you also have in the record in which Mr. Kelsoe, Ronald Kelsoe writes on the letterhead Youth Incentives, Inc., a nonprofit organization. Would that be the same Mr. Kelsoe?

Mr. GREEN. Yes, sir.

Senator MONDALE. So that although Youth Incentives may have emanated business, Mr. Kelsoe——

Mr. Green. We see him operating under the same name.

Senator Mondale. Appeared to be with them and continued that business?

Mr. Green. Right, Senator.

Senator Mondale. Under another name, not registered with the State of Florida?

Mr. Green. Right.

Senator Mondale. Now, what would these Youth say? What was their mode of operation?

Mr. Green. At the time they were using little kids. When I say in the age of 8, 9 years old. Let me give you a graphic situation, Senator.

My wife works in the travel agency, Miami Springs. They were acquainted with the investigation normally that I was conducting on this organization and she told me they have a kid that they were soliciting or selling candies. I told them, try to get the one box to buy and that one had quite a bit of evidence. And she assured—I told them I would be immediately in the other office and I would get over there and I find out every employee in that office, which they have nine with a box of candy. I say, well, why had you bought this and they say, well, we felt sorry for the kid because the box of candy was bigger than himself and they couldn't carry. I say, well, he told you something. And they say he mumbo jumbo something. We didn't understand. But we felt sorry. That's why where it is exploited, a dealing of feeling sorry to the kid and now when they using all the kids, in the speech of helping getting them off the street. Normally, I found more or less the same goals by the Youth Clubs or similar types of operations.

Senator Mondale. Now, did you ever see any services being provided for youth—in the name of the Youth Incentives by clubs or activities of any kind carried on to help children?

Mr. Green. We got their statements but have never been substantiated with facts. At the time they came into our office and stated they took seven or eight kids or something of that, but it was never substantiated by the facts or financial report.

Senator Mondale. Is it your impression that what happens most often—I'm not talking about Youth Incentives, but what you feel or fear is that organizations that are in just commercial organizations in fact, will use children to serve as nothing other than salesmen, maybe perhaps on a commission. But they really are salesmen who go door to door and give the impression they are soliciting Boy Scouts, Girl Scouts, Camp Fire Girls or local charities that churches and so on will often use toward public purposes?

Mr. Green. I think—I would call that one of the methods to improve their business, exploit that particular situation. We don't see—let's put it this way—we have several reasons in which not all come under the jurisdiction of the law. We hope some law will be passed. Unfortunately, your work and the work of this committee has made an impact on the State of Florida and we are looking very close at this situation. It is charity, it is one of the closest things to the heart of the American people. Through this study I made in the State of Florida we find out that also in the senior citizen circumstances someone is approaching them. Even in their despair and

241

they have only $2 dollars they will part with one. These commercial ventures of the individuals using kinds, they know that and they are using that method as a matter of fact. Inner-City Youth Corp, which for us is the continuation of the Youth Incentives is not any more a nonprofit organization but a profit making organization. The same way Youth Incentives, Youth Initiative, which is the other one under target by my State is the same, a profit making organization and not nonprofit.

Senator **Mondale**. And they use the words iike Youth Corps. Does that not conjure up in the mind of persons that buys the candy that the money is going actually to something like Job Corps, camp, or something like that?

Mr. **Green**. Most definitely.

Senator **Mondale**. Did you ever see evidence of any money that went for that?

Mr. **Green**. No, sir.

Senator **Mondale**. And——

Mr. **Green**. Not to the extent of solicitation as made for—Recently we made an inquiry through people, neighborhoods that had been affected by this type of solicitation and we find out that the range is 8 and 10 have been approached by this type of selling or this type of approach.

Senator **Mondale**. And when you asked the Youth Incentives and so on, Mr. Kelsoe, to cooperate, what type of cooperation did you get?

Mr. **Green**. Well, that time I have the opportunity to meet Mr. Kelsoe. We met and well we got a lot of talk.

Senator **Mondale**. Would he answer?

Mr. **Green**. Yes, but never to——

Senator **Mondale**. Did he answer your questions?

Mr. **Green**. Not directly the questions that you want, that put to them.

Senator **Mondale**. Thank you very much. Also, may I say we appreciate your work with respect to the Asthmatic Children's Foundation. We found it most admirable.

Mr. **Green**. We are in the process of straightening out that thing and trying, like I say we believe that charity belongs to the people and something had to be done to protect that dollar that the people work for.

Senator **Mondale**. Thank you very much.

Today, we have received incomplete testimony from Mr. Gerald Winters, the organizer of Youth Incentives, Inc. He has refused to answer questions to the subcommittee on the grounds it might incriminate him. The subcommittee staff has undertaken a thorough study of this organization in the various states. We still have many unanswered questions about the operating procedures of this organization.

In addition, Mr. Green has testified that the same organization is under investigation in Florida. For these reasons the subcommittee will convene to discuss whether subpoenaes will be issued so we may have the benefit of complete testimony to determine precisely what is happening to this organization.

Thank you very much.

Our next witness is Mr. James C. Amico, Coordinator of Charitable Organizations for the State of New Jersey.

Will you proceed?

STATEMENT OF JAMES C. AMICO, COORDINATOR OF CHARITABLE ORGANIZATIONS, STATE OF NEW JERSEY

Mr. Amico. Before I make any statements with regard to the laws or cases that we have to present I could not let this opportunity pass without making the following statements.

While it is my job to police charitable organizations in the State of New Jersey, it also is my job to protect and preserve the inherent characteristics of all our people of our Nation and not in any way diminish the quality and benevoldence from charity.

I would like to quote from the Bible, the Book of Corinthians:

If I speak with the eloquence of men and angels and have no love I become no more than a blaring brass or clanging cymbal.

We need charitable organizations. We need professional fund raisers, we need professional solicitors. And there is a place and many of them do a good job. Like all human beings and organizations there are many good ones and some not so good.

I wish to make it clear that these precepts are given full consideration in making these statements.

In the State of New Jersey we have implemented a law effective April 1972 known as the Charitable Fund Raising Act of 1971. In general, I consider this to be a good and an effective law. What we do here is register charitable organizations and, in turn, they must file a financial report with our department annually and they are subject to examination. We register professional fund raisers, professional solicitors as well. We examine contracts between charitable organizations, professional fund raisers, and solicitors. We also require a form to be filled out when prominent individuals names are used for the purpose of solicitation requesting their consent.

The law still requires some modification and some improvements. We have some recommendations which we consider fair and equitable for all concerned and will be glad to submit them to the committee separately.

Senator Mondale. Thank you.

Mr. Amico. During our course of investigation and work with charitable trusts, we found the need for more responsible directorships and trustees with the organizations. Many people lend their names to be used as trustees and directorships without reviewing the function in which the organization might be involved.

A review of the charters by appropriate departments of the Government should be more stringent, whereas the organizations are restricted to do exactly what their purposes are. In many cases our experience has shown that purposes are far too broad and they tend to mislead the public as the objectives of the organization.

Let us take for example the terms such as "underprivileged children." Are these for the children of New Jersey or California or India? It is far too broad. The same with such terms as "chronic disease." The same with "youth incentives." The same with "children's relief." These are to mention a few.

How can any of these organizations help and assist in those broad general terms when the U.S. Government and the States of our Union or counties or cities with all the resources cannot begin to achieve these results with all their concerted effort.

No doubt many of these organizations with these terms and titles are striving for the objectives and are well intentioned. However, they should be restricted to the purposes for which they have been established. I would like to cite a case here, as an organization known as the National Association for the Underprivileged Children which incidentally, is now defunct. This organization operated in the States of New Jersey, New York, promoting shows, collecting funds in the name of charity, and I ask again, for the underprivileged children? Which children? Those of New Jersey, New York, New Mexico? You name it. The truth is, gentlemen, that in this particular instance no children were assisted or aided in any way. No youth received any benefits. To make a long story short the remaining funds of this organization were confiscated in the States of New York and New Jersey and refunded to those able to be refunded. This was done with the combined efforts of New Jersey and New York officials.

I will present some cases here and due to the fact that some of them are under intensive investigation and close to the prosecution at this time I have listed the cases under alphabetical order, which I have a separate document to submit to the committee here.

Senator MONDALE. Thank you.

Mr. AMICO. On this occasion, case B, the organization was registered with the secretary of the State of New Jersey and has not registered as a charitable trust in the State of New Jersey. Here we have an organization trying to be active in New Jersey and trying to get them registered. We sent them certified mail with the address of their literature and corporate structure and find they did not claim the mail. However, the important part here is that this is an organization which is supposed to help the youth in particular areas that their literature states, teaching incentives, motivation, self help, honesty, pride, self respect, etcetera.

Now, this sounds great and really is a task to be hoped for. However, look at the other side of the picture. This organization was selling candy. One of the principals in forming the organization is Mr. X and Mr. X is a candy broker, one of the corporate officers of this corporation.

The purpose of this corporation as stated is to assist in funds by said activities for the sale of property. Another incorporator was a principal in a candy company who supplied the candy to the youth. And he answered the questions under New Jersey law, "Have any of the incorporators ever been convicted of a crime?" The answer was negative. However the record shows an entirely different picture and the record speaks for itself in this matter.

Senator MONDALE. What kind of crime do you recall?

Mr. AMICO. Well, there was about—The record shows about fourteen crimes: Soliciting, use, violation of child labor laws, assault, and a number of others in various counties of New York and other States.

An important point I would like to bring out with this type of organization is that the persons instrumental in forming a charitable organization, utilize the organization to sell the products of their business corporation. What better way can an organization achieve a sales staff without having to pay people to sell their products without the engaging of regular sales personnel in competition with business corporations who pay taxes and their selling staff normal wages.

Their statement at the time called for boys 12 years old and over. This would lead us to ask the question Is there fair competition? Is this fair employment practice? Which youths are being assisted? In what areas and how many were actually assisted in the programs they have outlined?

Mr. MONDALE. Is it your impression in this area we are talking about it is not only a question of public misleading and as to what they are giving to help but that it is also many times exploitation of children themselves?

Mr. AMICO. Exactly. That is what I am leading to, Senator.

Senator MONDALE. And also involves the question, if it is actually for a profit business many times you do not pay taxes?

Mr. AMICO. Yes, it is. For example if I were to form an organization, and I were manufacturing ironing board covers for example, if I set up an organization across the country, and one man in each particular State would engage in various clubs and even exploit the boys clubs or some Scouts to get them to sell this product, I am doing this for the benefit of my own corporation and getting the business from them and utilizing all those sales personnel. I couldn't begin to have a sales organization under half a million dollars to promote this type of product.

So it is—to continue, how many were actually assisted? We don't have a record of how many were assisted, that we know what was really done for them, how much were total sales with relationship to the youth that might have been assisted in any other way, that earn 35 cents on a box of candy, or each ecology bag sold door to door? And the drivers incidentally were paid 30 cents per box. The balance of the funds remained in the organization treasury or disposed of—which they had complete control. I asked this question again, is this exploitation of youth? I mention to you now an organization known as Horizons Plus. That organization operated in Orange, N.J.

One of the main functions of this organization was selling ecology bags. This organization did not register anywhere in the State or any department that we were able to determine. When we went to apprehend the principals of this organization they had absconded. It was just an empty room that we had located through our investigations. This was a quick in-and-out that the senator was mentioning earlier of the organization utilizing boys in this particular case from 11 to 14 years of age.

Needless to say this is a violation of wage and hour laws, I believe in almost every State in the Union, but they were selling ecology bags to help the youth. Now surely there are numerous beneficial organizations that do help youth, but I merely cite these cases to draw your attention to the fact that there are a number, or too numerous to bring to this hearing, of the fly-by-night operations that the public should be made aware of, a protective caution for the youth of our country should be taken.

We do not want them to be exploited and become cynical.

Another case—D—which is a relief program for the benefit of children. No doubt this is a well intentioned organization also. But the potential contributor which should and would ask themselves which children are being aided? Are these the children of Bangladesh, or the children of San Jose? Where are these children? A person contributing to such an organization has no idea as to how his contribution is being used. This is what I meant previously as a program being far too broad to be effective. A person could assume or think they are helping the poor starving children of Biafra and caring nothing about the children of Rio de Janeiro and some other sections of the world.

I would like to cite a case I consider exploiting and the ironic matter is we have no jurisdiction. Yet it is such a flagrant matter you could be cognizant of it. This is the candy drives in various schools. For example, students had been employed to sell candy bars at a price of 50 cents. The school distributed 1 case of 24 bars to a student. This particular school has approximately 4,000 students. They conducted two campaigns for a period of 2 weeks. These children were expected to call from door to door and this door-to-door soliciting by the children placed them in hazardous position, not only exploitation but hazardous position. These are both boys and girls not knowing the dangers they might encounter. Now, consider the fact that children walking the streets, sometimes at night, in strange areas traveling with money and candy. If they should encounter someone they would be unarmed and unprotected in anyway nor are their families protected. The families no doubt are unaware of this. In this case 4,000 students made two drives. The school benefitted a total amount of less than $2,000. This represents a great amount of sales per candy with a small amount going to the school. The result is that few children, the few children that were tops in their sales get a trip to see a movie in the local theater. The grand prize went and I quote from the school bulletin.

"To the top salesman." It was a party at a local hamburger restaurant.

Is this exploitation? Is this getting sales on a very cheap basis?

Here is another matter we have come across in our State, Drug Addiction Prevention Society. Well intentioned. Beautiful name. This was formed in our State and immediately stopped by our department because the principals in this particular instance represented himself as a Rabbi. He turned out to be an imposter. This was discerned immediately when he was questioned by our department. In the final analysis we went to apprehend him and he had absconded. His operation was to use young children with canisters in front of department stores and supermarket lots. I am thankful this did not get off the ground.

We have a case—G—operating out of the Fort Lee, N.J. We stopped them as soon as we received a report on their operation. Fortunately we can do this in New Jersey with our recent law of 1971. They were using high school girls transported in a station wagon from their homes to shopping centers to collect funds with canisters. We have testimony from these girls they would collect up to $75 in a canister and sometimes paid $10 or $12 right out of the canister that would be opened up.

Here again there was no proper compensation, no insurance program, no social security, no Federal or State taxes for the benefit of the individuals should harm come to them. This is exploitation of young people again.

Incidentally this was a boiler room type of operation and the only way to close it down was move in rapidly before they had absconded in this particular case. What they were doing was getting students from the local high school and bringing them into a basement apartment unmarked and unnumbered and had about nine phones in the apartment. They would give a pitch like this.

> Good morning, Mrs. so and so. My name is—and we are a commercial enterprise.

Incidentally, in this particular case they were not a nonprofit organization. They were registered as a business corporation. However, they make it appear they were a nonprofit organization.

> I am sure you have heard of these products. They are a national product for the rehabilitation for the mentally retarded. We are selling the product in your neighborhood and would you be so kind as to purchase something such as our Flame of Hope Candle packaged by the mentally retarded.

However, on testimony from the students they were instructed to say almost anything that would "help them make a sale." This operation was one that also used at least nine telephones.

Not only looking into the matters of question of operation itself being irresponsible and unethical—and I can use four more adjectives here—in this particular instance they had students going to high school and are now being taught misleading and deceptive practices which could lead to other things later on including that of becoming cynical and nonbenevolent in their characters.

I am drawing your attention to this type or organization that we must watch out and do not want the public in particular to think everyone has the DDT's. By that I mean a double dilution of trust. There are a good many organizations that solicit funds and yet do a very good job with the funds in training and educating of youths and giving them back their programs. To name a few, Girl Scouts, Boy Scouts, Little Leagues across the country, boys clubs, and a number of others I've had experience working with.

In closing my statement I would like to point out that over 25 years ago when I worked in the actual building of boys clubs and dedicating time in the Youth In Town work the police chief in Bergen County asked if I would make a statement on a brochure they were publishing. I think it is timely and fitting now. I wrote down immediately:

> All your hopes and dreams of the future may be completely shattered should you fail to invest in the children of America and of the world for they are the key to security, happiness, and tranquility. They are the future.

And as a result of this hearing it will prevail. And by investing I mean commitment, dedication, action, and lastly money.

Senator **Mondale**. Thank you very much for your excellent statement. Senator Williams as chairman of the full committee has asked me to extend to you his best wishes and appreciation for your excellent work.

We will recess until tomorrow at 10 a.m. in room 6202.

[The hearing was in recess at 12:30 o'clock p.m., to be reconvened at 10 o'clock a.m. on Tuesday, March 12, 1974.]

BEST COPY AVAILABLE

CHILDREN'S CHARITIES, 1974

TUESDAY, MARCH 12, 1974

U. S. Senate,
Subcommittee on Children and Youth
of the Committee on Labor and Public Welfare,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 6202, New Senate Office Building, Senator Walter F. Mondale, subcommittee chairman, presiding.

Present: Senator Mondale.

Committee staff members present: Ellen Hoffman and A. Sidney Johnson III, professional staff members, and Harvey Katz, consultant.

Senator **Mondale**. The committee will come to order.

This morning, we are going to try again with Mr. Winters, the founder of Youth Incentives, Inc.

Mr. Winters, do you own a candy company?

Mr. **Winters**. Yes, sir.

Senator **Mondale**. What is the name of it?

Mr. **Marx**. Excuse me, Senator, if I may.

Mr. Winters has one or two pages that he would like to read.

Senator **Mondale**. Proceed.

STATEMENT OF GERALD WINTERS, FOUNDER, YOUTH INCENTIVES, INC.; ACCOMPANIED BY ALLAN MARX—Continued

Mr. **Winters**. Senator Mondale, I would like to take this opportunity to extend to you and this committee my sincere apologies for my uncalled for conduct at yesterday's hearing.

I wish to state at the outset that I have no positive recollections as of the date I left Youth Incentives. Yesterday, when you started to inquire into the tax exemption by Youth Incentives—the reason for these being requested was because when Youth Incentives was formed, we thought it would be necessary to have an exception in order to obtain money, from foundations.

In retrospect, this was unsound as these exceptions gave rise to the contention that the Youth Incentives was soliciting charitable contributions which, in fact, this was not the fact.

The establishment of the Youth Incentives had two goals in mind. One, to help underprivileged youth, combined with youth activity, and it is and was my lifelong dream. And, two, a source of business through which candy can be sold.

249

I am the first one to admit that it grew without proper direction, and because of this, abuses did take place.

The people who ran the organization failed to see that proper records were kept, and the counselors were properly picked or supervised.

Since I was one of the founders, I felt a responsibility for these actions even though I had no absolute control over them. I feel that a job program that gives underprivileged 13, 14-year-olds a chance to leave their surroundings and earn money is a worthwhile one. And as long as it is properly supervised, and the public not misled into thinking they are contributing to charitable organizations.

Presently, today, there is a void in the program being offered by the traditional children's organizations, Boy Scouts and boys club, which a program like Youth Incentives can help to fill.

Thank you.

Senator MONDALE. Thank you.

Now, what is the name of the candy company that you own?

Mr. WINTERS. When Youth Incentives were incorporated, it was International Candy and Food Products, Inc.

Senator MONDALE. Where is that company?

Mr. WINTERS. That company is no longer in business.

Senator MONDALE. Are you connected with a candy company now?

Mr. WINTERS. Yes, sir. Fund Raiser Products, Inc.

Senator MONDALE. Where is that located?

Mr. WINTERS. Winter Park, Fla.

Senator MONDALE. Does your company produce or broker candy?

Mr. WINTERS. At the beginning, we imported candy from several different countries, and it was packed for us under our brand name.

The rest of the merchandise was made up for us.

We sell other items in addition to candy and supplies made to be sold.

Senator MONDALE. How many years have you been in this business of candy production or candy brokering?

Mr. WINTERS. I started selling candy door to door in 1958, and I did that—well, I am still doing it today.

In 1969, I wanted to go into some other things like, for example, I was in the stages of importing candy from Europe and setting up a retail sales organization and selling to other organizations—schools, churches, Boy Scouts, Little League—and I had an idea that was going quite well. And we put two pieces of candy on a motel card, and it would be left in the motel room, and the guests would taste it and like it and then buy it in the lobby.

I wanted to set up Youth Incentives to continue the door-to-door operations then in existence.

Senator MONDALE. So you have been in—and I am not talking about the personal door-to-door work, but your role as the owner of a candy company or confectionery company, or whatever you call it—and when did you set up this candy company approximately?

Mr. WINTERS. Well, there was always the company involved.

Senator MONDALE. I mean you personally.

Mr. WINTERS. When did I personally form my first corporation?

Senator MONDALE. It does not have to be a corporation. When did you go into the candy business? I am talking about getting into the business of brokering and selling.

Mr. MARX. Excuse me, Senator. Do you mean when Mr. Winters started selling to Youth Incentives?

Senator MONDALE. No. The candy business.

Mr. WINTERS. Senator, during all these years, I was previously operating that company, and Youth Incentives started operating in them. I was operating under private enterprise.

Senator MONDALE. When did you start that?

Mr. WINTERS. 1958.

Senator MONDALE. So you have been in this business since 1958. What kind of business does the company do? I think you said it sells candy, and you apparently have gone into a different company called Fund Raiser. And what kind of production company do they distribute?

Mr. WINTERS. We sell candy, cookies, candles that are made by the mentally retarded, and we sell novelties which are made by a firm in Florida which I have an option on buying into, and we sell anti-gas-siphoning devices and have sold ZIP code directories and ecology bags. And at the present time, a big seller is the anti-gas-siphoning device because of the energy crisis.

Senator MONDALE. Now, we show three companies or four companies listed with addresses at P.O. Box 330 in Florida.

Youth Incentives, Fund Raiser Candies, and Krista Packaging. Are all those your companies?

Mr. WINTERS. If I understand you correctly, you said Youth Incentives.

Senator MONDALE. P.O. Box 330, Goldenrod, Fla. They all show the same address, Youth Incentives, Fund Raiser Candies, and Krista Packaging.

Mr. WINTERS. I think that is a mistake, sir.

Senator MONDALE. Take a look at that.

Mr. WINTERS. My post office box is P.O. Box 333.

Senator MONDALE. Who would P.O. Box 330 be?

Mr. WINTERS. It could have been the post office box that we previously had before P.O. Box 333.

Senator MONDALE. What corporations use the P.O. Box 333?

We have three corporations, and when was this—this was in June of 1973, and three corporations we find had the address of P.O. Box 333, Youth Incentives, Fund Raiser Candies, and Krista Packaging. Would that be accurate, do you think?

Mr. WINTERS. Well, if mail was addressed to P.O. Box 330, and apparently it was then——

Senator MONDALE. Let me ask you this. Were you in charge of the three corporations, Youth Incentives, Fund Raiser Candies, and Krista Packaging, without regard to their address?

Mr. WINTERS. I did not control Youth Incentives. I never hid the fact that I sold merchandise to Youth Incentives.

Senator MONDALE. Who controls Youth Incentives?

Mr. WINTERS. Youth Incentives was supposed to be controlled by its officers.

Senator MONDALE. Who were they?

Mr. **Winters.** The first officer was Ronald Childs. He was the first president. The second president was David Drake, and the third was Thomas Wade. And the fourth president was Allen Smalls.

Senator **Mondale.** Did any of those work for you?

Mr. **Winters.** Yes.

Senator **Mondale.** Did all of them work for you?

Mr. **Winters.** Since Youth Incentives was in existence or incorporated as a nonprofit organization, then Mr. Childs worked for me, for an example, in Milwaukee before Youth Incentives was incorporated. And he had the most successful program that summer, a program that took youth on field trips and everything. And since his religious background, he was chosen as the first president.

David Drake may or may not have worked for me before.

Thomas Wade worked for me before Youth Incentives. He was instrumental in setting up Youth Incentives. And Allen Smalls was one of my original crew drivers.

Senator **Mondale.** What was the gross of your candy company in 1973? How much did you take in?

Mr. **Winters.** I do not know.

Senator **Mondale.** Approximately.

Mr. **Winters.** A guess is acceptable, because that is the best it would be?

Senator **Mondale.** Yes. Do you have some idea of the size of the operation?

Mr. **Winters.** Overall operation?

Senator **Mondale.** Yes.

Mr. **Winters.** Total business?

Senator **Mondale.** Yes.

Mr. **Winters.** Could I submit that to you since there was two different corporations that were involved? I do not know—like it was three-quarters of a million or a million.

Senator **Mondale.** But somewhere in the million-dollar range, and you can submit the details by letter for the record if you want to add such a thing.

Mr. **Winters.** Yes, sir.

Senator **Mondale.** About $1 million?

Mr. **Winters.** Yes, sir.

Senator **Mondale.** Would it be fair to say that a small group of people worked back and forth between Youth Incentives and your candy company? They would be working for Youth Incentives and your company back and forth, would that be fair to say?

Mr. **Winters.** A small group of people?

Senator **Mondale.** Some of the employees who worked for Youth Incentives may, at one time, have been working for the candy company, is that correct?

Mr. **Winters.** Yes, sir; that would be a fair statement.

Senator **Mondale.** Would Ronald Kelso be one of those who worked from time to time at the candy company and an employee?

Mr. **Winters.** He has never been paid by me although he has done work for me.

Senator **Mondale.** What is General Candy & Nut Co., was that one of your companies?

Mr. WINTERS. General Candy & Nut was the name of my company and legally changed.

Senator MONDALE. Did Kelso work for General Candy & Nut?

Mr. WINTERS. I do not recall Ronald Kelso being an employee.

Senator MONDALE. We have something signed out by Ronald Kelso for General Candy & Nut.

Mr. WINTERS. That would be over an air travel card. I provided all people with Youth Incentives with travel cards and in Youth Incentives' name. And some of them issued in General Candy & Nut's name. What I meant by all was all the people I was asked connected with Youth Incentive I would obtain air travel cards for them.

Senator MONDALE. Now, I would also like to establish for the record that the financial statement issued by Salace Co. on Youth Incentives for the year ending August 17, shows gross candy sales of $765,000 for the year 1970. I just place that in the record.

Is it true that for several years Youth Incentives registered as a nonprofit organization with the Internal Revenue Service?

Mr. WINTERS. Yes, sir. But Youth Incentive never used it to ask for strictly contribution.

Senator MONDALE. During the years the primary activity was the retail sale of candy supplied by one of your companies?

Mr. WINTERS. This would be a matter of interpretation, and you are asking me for my answer. And my answer to your question would be that Youth Incentives' main goal was to provide job programs and to provide money for black youth in the ghetto, money that these youths need. And I went into that yesterday. And I will not go into that again.

In addition, they did provide motivation and youth activity. And to say all they did was provide production provided by my company would be an unfair statement and not represent the true facts because hundreds of local activities—summer camps and 200 boys taken to Disney World, and boys going to Washington, D.C.

And if you look at the financial statement for 1970, there was a Washington, D.C., trip, and there were several activities. And the purpose of any organization is to serve its members.

It sold merchandise and decided to help its members and to give them money. And I stated I supplied the merchandise, and I did not vote on the contract between Youth Incentives and my company.

The board of directors, and none of them were paid, and they all served because they believed in the idea that a boy is kept busy is out of trouble, and all of them had nothing personal to gain. And they were the board of directors, and they believe in this idea. If they would have come up with a better price, they would have done it.

Senator MONDALE. Now, is it a fact that Youth Incentives, a nonprofit corporation, never sold candy except that which your company sold them?

Mr. WINTERS. They sold other candy besides mine.

Senator MONDALE. Much?

Mr. WINTERS. No, not much.

Senator MONDALE. How much?

Mr. WINTERS. I would not know that.

Senator MONDALE. But, basically, and almost exclusively, if not exclusively, they sold your candy, did they not?

Mr. WINTERS. Yes, sir.

Senator MONDALE. How do you become a member of Youth Incentives?

Mr. WINTERS. A teenager?

Senator MONDALE. Yes.

Mr. WINTERS. There are several ways. Most of them are referred by other members. Most of the original members of Youth Incentives came from—I was previously working in every city under private enterprise of Youth Incentives and other names. And Youth Incentives was incorporated and they took over the business that I had. And after that, they tried to change the structure so that they would do more for the youth.

As a result of Youth Incentives being incorporated, I received less money. And since I did supply them with merchandise, this is why I resigned from the board, and this is one of the reasons why programs rose because I had the experience from door-to-door sales, and I would say, "Look, you are doing this wrong."

And they would say, "Wait a minute. You sell us candy and we run our organization." And I would say, "Why don't you do this?" And sometimes they would do it, and other times they would not.

Senator MONDALE. Are you aware of the Federal statute that requires all tax exemption organizations to file an information form with the information for Internal Revenue Service?

Mr. WINTERS. What do you mean, receiving?

Senator MONDALE. Grossing more than $5,000 annually.

Mr. WINTERS. I am not certain.

Senator MONDALE. Do you know if Youth Incentives ever filed such an information form with the Internal Revenue Service?

Mr. WINTERS. I thought you had that there, the 1970 statement.

Senator MONDALE. My information is that no such form was filed and that the Internal Revenue Service tried to get Youth Incentives to do so, and never got a response.

Mr. WINTERS. I am not aware of any facts relating to Internal Revenue trying to get Youth Incentives to file any information required by the IRS. That would be outside of my responsibility.

Senator MONDALE. In how many States do you use children to sell candy?

Mr. WINTERS. I do not use children.

Senator MONDALE. Use whatever——

Mr. WINTERS. Not use. You see, that is the whole point of this hearing.

Yesterday, people sat here and they said the fact that the boy worked was exploiting him, and that is not true. And anyone that believes that, I cannot change them. But I will take them down to the ghetto and let them go out and see the boys and the parents. And they can ask them, do you want your son to have a job and learn salesmanship and gain confidence and better motivation, or have a chance for activities?

And, therefore, they are given a job program, and they are not used. That is my answer.

Senator MONDALE. What do you call them, youths?

Mr. WINTERS. Youths, because a boy of 13 is not a child.

Senator MONDALE. How many youths do you use?

Mr. WINTERS. I do not use any.

If you ask me how many participate——

Senator MONDALE. Participate, yes.

Mr. WINTERS. Fine.

Semantics is a problem. You see, sir, I have been slandered from the paper. I read the article in the Washington Post, and that is a mild article compared to some. And so I have to be careful of words that I use because——

Senator MONDALE. You ought to be in politics and read about yourself. You got off easy.

Mr. WINTERS. Privately, if you would like to see some of the articles written about me, I am certain you would think otherwise.

Senator MONDALE. How many youths participate?

Mr. WINTERS. At the present time?

Senator MONDALE. No.

Let us take a typical year of 1972, if that is typical, and about how many youths participated in your sales in the country?

Mr. WINTERS. This would be a question that you could get 10 different answers from 10 different people.

If you are a critic, you would say one figure, and what do you mean by participation, 1 day, 2 days, a week or a month?

Senator MONDALE. How many youths overall were selling for you at one time or another, the total?

Mr. WINTERS. In a year's time?

Senator MONDALE. Yes.

Mr. WINTERS. Let me say this.

I would say on any given Saturday, there would be between 1,000 and 1,500 youths participating. And during a year's time, I would say that since I would estimate, it would go between 10,000 or 25,000 total youths that participated at one time or another, because those that participated for 1, 2 or 3 days, but nevertheless would participate, and even if it is only as little as 3 days, the motivation they gained in 3 days was beneficial.

Senator MONDALE. In how many cities would they be operating on a typical day?

Mr. WINTERS. By typical day, I am referring to the summertime, and in my mind I am covering the whole period of the last 3 or 4 years. And I can say a figure and it would be low or high. It might be 25 cities.

Senator MONDALE. Something like 25 cities maybe.

Mr. WINTERS. Yes, sir.

Senator MONDALE. And would those cities be all over the country or located in the East or what?

Mr. WINTERS. Depending on which year.

Senator MONDALE. What was your top year?

Mr. WINTERS. My top year?

Senator MONDALE. Yes.

Mr. WINTERS. Again, I would be hazarding a guess, and that is all I am doing, is guessing at the best of my recollection.

I would say 1970——

Senator Mondale. How many cities would you be operating in, do you suppose?

Mr. Winters. In 1970, I would guess 25, sir.

Senator Mondale. Are you talking about the youths who are participating with Youth Incentives, or are you talking about other companies as well?

Mr. Winters. I am talking about other companies as well.

Senator Mondale. So, when you talk about maybe 1,000 youths in 25 cities, you are talking about youths selling your candy in or through Youth Incentives and through other companies that are around selling candy?

Mr. Winters. Yes, sir.

Senator Mondale. Do you own some of these companies for profit which are selling door to door?

Mr. Winters. Yes, sir.

Senator Mondale. And is that what Fund Raisers and so on, is that the company?

Mr. Winters. No, sir.

Senator Mondale. What are their names?

Mr. Winters. Junior Salesmen of America.

Senator Mondale. Junior Salesmen of America?

Mr. Winters. Yes, sir.

Senator Mondale. What other ones?

Mr. Winters. At the present time, that is the only one.

Senator Mondale. You use that one?

Mr. Winters. Right.

Senator Mondale. Are those profit companies?

Mr. Winters. Yes, sir.

Senator Mondale. What is the difference between how you sell candy through a profit organization, the one you referred to, and how candy is sold through Youth Incentives?

Mr. Winters. Basically, Youth Incentives—the fact that it was a nonprofit organization did not help sell merchandise.

What Youth Incentives did do, it did help you get into territory and help you get into cities and help you get permits. And, therefore, that would be the basic difference in that it would help because, regardless of what other people might say, if we did sell a good product time after time, we go back to the same houses five, six, seven times a year, and no one would buy because they felt sorry for the kid. What I meant by this was someone might buy one time because they felt sorry for the kid, but they were not going to buy it six or seven times because he felt sorry for the kid. They would say goodbye, get lost.

Senator Mondale. What does a box of candy cost that you sell to Youth Incentives?

Mr. Winters. I sold the candy to Youth Incentives for 40 percent of their selling price.

Senator Mondale. How does that work out?

Let us back up. They sell it for what?

Mr. Winters. Well, it varied from time to time. We will take like the net, and I am sure, as you know, the rapid thing called inflation, and candy that sells for $1.25 is selling for $1.50.

Senator Mondale. Would the 90 cents go back to them then?

Mr. WINTERS. Yes.

Senator MONDALE. Does the youth get the whole 90 cents?

Mr. WINTERS. I have figured here of what was supposed to be in the breakdown before Youth Incentives was formed, and how they worked out a reality, I am not certain.

That was on the financial statement.

Normally, between 30 and 35 cents off each box, and he would sell, and the typical counselor would be paid 30 cents, and management would be paid 8 cents. And overhead was at eight cents. And I know that ended up being higher. Overhead—the Youth Incentives had an office at—and youngsters—they were not pinball machines that were referred to.

Maybe it was not elaborate by your standards, but by the boys' standards, they were fantastic.

Senator MONDALE. Let us see.

Thirty-five cents for the youth and 30 cents for the counselor, and 8 cents for management, and 8 cents for overhead.

Mr. WINTERS. And if you took 35 cents, that would leave 9 cents for the youth activities. Like a nonprofit organization cannot use its money, money left over at the end of the year, and it has to be used to benefit its members. And that is what was done.

If you buy the idea that a boy working is a good thing, you have to buy the idea that Youth Incentives is a good thing, because if you buy that idea, then the boys receiving 35 cents per box, and the counselors have to be paid.

Senator MONDALE. Let me ask you this. How were the counselors selected?

Mr. WINTERS. A lot of people who were working for me before Youth Incentives was incorporated went to work for Youth Incentives when it became incorporated.

Senator MONDALE. Would they be paid based on the number of boxes sold?

Mr. WINTERS Yes, sir.

Senator MONDALE. So, would it be fair to say counselors were pushing sales quite a bit?

Mr. WINTERS. You could say they pushed sales, but if they pushed sales and they neglected the youth involved, you are not going to have any sales at all.

Senator MONDALE. How were the counselors selected?

How did you find them?

Mr. WINTERS. The counselors who were working before, a lot of them are college students who worked for me during the summertime, and they would graduate and go to work. Other times, ads were placed in the classified ads of the newspapers, and people would come in and be interviewed.

At the beginning, there was not proper supervision in the selecting of counselors.

I personally opposed David Drake being hired. I opposed David Drake being president. This is one of the main reasons why I resigned.

Now, Youth Incentives had no outside income. When you have no outside income, you cannot say, "We will pay you $150 a week to be a youth counselor."

And the only way you can pay the counselor is from the percentage of sales.

Senator MONDALE. Would the counselor go with the youth as he went door to door?

Mr. WINTERS. The counselor would pick up the members in the neighborhood and drive them to the neighborhood and drop them off in pairs at an intersection, and drive to the next section and drop off two more boys, and drive to the next section and drop off two more boys, and go back and check on the boys. And all the time he was there, he was supposed to be driving around and seeing that the boys were talking to people, and if the boy was having problems of going up to the door to try to help the boy sell.

Senator MONDALE. How many youth would work for a single counselor?

Mr. WINTERS. That would vary, depending upon the experience of the counselor and his expertise.

Senator MONDALE. What would be the average, approximately?

Mr. WINTERS. Well, there are some drivers that work six, seven, eight, and there are guys that have vans that work 12 youths. That is very rare for any one to work that many.

The typical or the average would be seven.

Senator MONDALE. What would a good group of youths sell in a day?

Mr. WINTERS. That would depend on the area or the city you are selling in.

Senator MONDALE. Take a typical medium or successful day.

Mr. WINTERS. At which time?

Senator MONDALE. Pick a time.

Mr. WINTERS. Well, before the Miami Herald started running articles saying we were a bunch of blank-blanks, and we would probably sell 150 or 200 on a good night. And after the articles appeared, the sales fell down to 100 boxes a night.

And Mr. Green stated that, and he told me privately of an incident that he knew of where some boys were taken out and not brought home. But this is not with Youth Incentives, and this would have to be an isolated incident.

Senator MONDALE. Let us see.

So that if you sold 150 boxes, and the counselor got 30 cents a box——

Mr. WINTERS. That would be $45. And out of that he has to pay for the upkeep on his car and we provide insurance for the youth participating in the program, but we do not provide the counselor with insurance. He would have to pay for the insurance on his car and vehicle, and some counselors made a lot of money and some made average money, and some made so little that they quit.

Senator MONDALE. How were the youths selected, and what were their ages and so on?

Mr. WINTERS. All I can do is tell you what I thought was supposed to be the procedure, because I do not actually know if this is the procedure that was always followed.

As I stated in the beginning, and this is something that everyone seems to be forgetting, I work door to door in every city that Youth

Incentives started working in. I turned this over to Youth Incentives, and I had no guarantee that Youth Incentives would start buying merchandise from me.

If they had not bought merchandise from me, it might have bothered me. But the capital I would have invested, in retail and done as well.

My main purpose in Youth Incentives is that I wanted to form a nationwide youth organization. If they got merchandise from some place else, that would be fine. I would continue giving them advice, and put the money into retail sales.

Senator MONDALE. How were the youth paid and what were their ages and so on?

Mr. WINTERS. They were already in an organization that existed before Youth Incentives was incorporated.

Senator MONDALE. You said earlier they were not kids, and you must know who they were and what their ages were.

Mr. WINTERS. The average age is 13 or 14.

Senator MONDALE. Were there youths younger than that?

Mr. WINTERS. Well, like Mr. Green, I do not know of any incident where Youth Incentives, and with Youth Incentives where there has been youth below 12 personally.

I am sure that when you are working ten or 25,000 youths during the year, and you have over 100 counselors out there, I am sure there were times that there might have been kids under that age taken. And I do not have a calculator here.

And of the total number, the percentages would be minute, and that is what makes headlines, one boy 9 years old works. That is what sells newspapers.

Senator MONDALE. We talked a moment about the breakdown on the boxes of candy sold, and let us go through the same steps on the profit organization that you have.

Mr. WINTERS. Junior Salesmen of America?

Senator MONDALE. Junior Salesmen of America.

What does a box of candy cost to the consumer when sold by Youth Incentives?

Mr. WINTERS. Junior Salesmen is——

Senator MONDALE. If I buy a box of candy from a youth who comes to my door from Junior Salesmen——

Mr. WINTERS. You get a good box of candy.

Senator MONDALE. What does it cost?

Mr. WINTERS. $1.50.

Senator MONDALE. Do you have teams of youths who go door to door for Junior Salesmen?

Mr. WINTERS. Yes, sir.

Senator MONDALE. How many go door to door in a team?

Mr. WINTERS. They are let out in pairs.

Senator MONDALE. And do you have somebody over them?

Mr. WINTERS. Yes.

Senator MONDALE. What do you call that person?

Mr. WINTERS. You call him a counselor.

Senator MONDALE. How many will he deal with?

Mr. Winters. Again, it depends on the individual counselor, and it depends on how big a vehicle he had. And it would—I would still say the average is seven.

Senator Mondale. He gets a cut out of the sale of $1.50, right?

Mr. Winters. Yes, sir.

Senator Mondale. What does he get?

Mr. Winters. That varies from city to city.

Senator Mondale. Approximately what would it be?

Mr. Winters. For a $1.50 item it is 35 cents in Dallas.

Senator Mondale. What do the youth get for a box sold?

Mr. Winters. The average is between 32 and 35 cents.

Senator Mondale. And what about overhead?

Or does that get absorbed by you?

Mr. Winters. That goes down considerably when you are working for a profit organization, because you do not have to submit your records to a certified public accountant.

Senator Mondale. Would it be fair to say that the counselor gets about the same as the door-to-door youth salesmen get, about the same amount?

As I understand your figures, they come out about the same.

You said the counselor got 30 cents and 35 cents.

Mr. Winters. For $1.50 items they get 35 cents. I would say, as a general rule, in a profit organization that the youths involved receive more money and that the counselors receive more money because with the nonprofit corporation, you have to have so much money left for youth activities.

Senator Mondale. But the cut they get is about the same, is it not?

Mr. Winters. The average counselor under Youth Incentives got paid 30 cents.

Senator Mondale. The counselor got 30 cents and you pay him 35?

Mr. Winters. Right.

Senator Mondale. We talk about the money spent on youth activities, and I have this audit of Phalles Co., C.P.A.'s, which show a gross of $764,000 in candy sales, and what cost a net revenue from fundraising, $238,000.

What is a youth assistant program?

Mr. Winters. May I see that before I answer that?

Senator Mondale. Yes.

Mr. Winters. The youth assistance program was the money that was paid to the youth, plus local activities.

Senator Mondale. Well, the youth assistance program, $160,000, would that be the counselor?

Mr. Winters. No.

That is the money paid basically to the youths.

Senator Mondale. Their cut?

Mr. Winters. Donated back to the youths from the Youth Incentives, because Youth Incentives is a nonprofit organization and can decide what it can do with the money and to donate money back to the boys because that will have a beneficial effect on them.

Senator Mondale. You say the youth gets 35 cents a box?

Mr. WINTERS. Can we stick to one corporation?

Senator MONDALE. I will go back to the one we are talking about.

Mr. WINTERS. I said Youth Incentives, and the average youth got 30 and 35 cents.

Senator MONDALE. Youth Incentives?

Mr. WINTERS. Yes, but also in that there is money even to boys, given to boys who if a youngster goes out and does not sell good, he is getting money regardless. So that would be reflected in that also.

Senator MONDALE. Local activities and projects, what is that?

Mr. WINTERS. That would be, first of all, that there is a lot of local activities and projects that do not show up on the balance sheet, because the counselor knows that he has to have excellent rapport with the boys he is working with. And he would personally invite them over to his house for dinner or take them to Coney Island, or take them to the beach, or take them to a football game, and do a lot of things on his own.

Senator MONDALE. That is listed at $700.

Mr. WINTERS. Yes, sir.

Senator MONDALE. Summer camp program, $10,000.

Mr. WINTERS. Yes, sir.

Senator MONDALE. Where was that summer camp?

Mr. WINTERS. In Wisconsin. I have the contract here. Camp Monticello.

I am sorry. Oak Crest Ranch in Wisconsin.

Senator MONDALE. And charitable donations of $900, what is that?

Mr. WINTERS. I have no idea.

Senator MONDALE. Did you have a certified audit done in any other year?

Mr. WINTERS. I did not have this certified audit done.

Senator MONDALE. Did Youth Incentives have a certified audit done in any other year?

Mr. WINTERS. I would not know the answer for sure. I know in some cities there was a certified audit, and other cities there was not.

Senator MONDALE. Well, now, Mr. Winters, you say that there that Youth Incentives is a separate corporation over which you exercise no control.

Mr. WINTERS. I did not say that. I said I did not have absolute control. And when I was on the board of directors, I had more control than when I resigned, because if I had control, there would have been the day that Youth Incentives would be well known, and I would not be sitting in this chair. And they would be almost like an institution.

Senator MONDALE. Well, I do not want to be unfair to you, but it is my impression that you set up Youth Incentives and your employees were dominant figures in Youth Incentives, or went in and out of the organization, into yours and back, and that, as I understand your testimony, you were actually involved in counseling them on how to sell and operate, and that although they may have had what you indicated a modest amount of candy from other sources and, in fact, most of the candy came from your own company.

And would it not be fair to say that it is very different to really draw a line between your company and Youth Incentives?

Mr. WINTERS. I have no difficulty in drawing the line.

Someone that gets piecemeal facts here and there, they would have a hell of a time.

Senator MONDALE. That is what we are having this hearing for.

Mr. WINTERS. I appreciate that, and I am trying to get things clear.

I had a company doing the business under Youth Incentives, and I was making a lot of money. This was how, when I was working before Youth Incentive, Inc. was formed, one of the names I used as Youth Incentives. After Youth Incentive, Inc., was incorporated, I turned over to them most of the business that I had previously been doing on door-to-door sales so that they could do a better job of motivation and do more activities for the youths involved. And I said that I wanted to get into other things. And I had other opportunities and to get into the other things, and I could not continue to devote my full time to door-to-door sales.

And I had to make a decision. And the decision was what do I do? And I did not want to abandon door-to-door sales because it is something I believe in, and I decided that the best thing to do was to set up an organization that would take the sales and no obligation to take the merchandise. And I gave the low bid. And when I sell candy to Little League, I go in there and tell them how to sell.

I tell them how to do a better job than they did the year before.

Senator MONDALE. You say you have no relationship and an independent corporation, and we asked you this question yesterday, and I would like to ask you this question again.

We have two exemption applications, and one for Youth Incentives of D.C. and one of Youth Incentives of Minnesota. On both of them, your name appears as an officer applying for exemption. And it is a signature which purports to be yours.

And I understand that yesterday you said that it is not your signature.

Mr. WINTERS. That exemption was applied for before the first meeting of the board of trustees. I gave the accountant power of attorney to apply for these, and he assumed I would become chairman of the board. And he filed those, and he put down chairman of the board.

That was before Youth Incentives actually started to exist. It started to exist, and I was never chairman of the board, and never was an officer.

I was on the board of directors, and resigned because people said that you sell them candy and it is a way to promote candy for you. And I said ———. I sold the candy before.

Senator MONDALE. These say that under penalty of perjury and to the best of your knowledge that it is a true and correct statement signed by Jerry Winters, chairman of the board of trustees of Youth Incentives, Inc.

And another form here with the same recitation of penalties upon perjury, and signed Jerry Winters, chairman of the board of trustees.

Are you saying these are not your signatures on there?

Mr. WINTERS. I do not remember signing those signatures. And as I stated, when those were filled out, I might have been chairman of the board then, but when Youth Incentives came into being, and maybe I thought about being chairman of the board, and maybe I was chairman of the board but that was before there was any operation. And this was in the talking stages.

And so when it got down to, OK, fine, a board of trustees meeting, and I have the minutes here from this meeting, and Tom Wade was elected temporary chairman, and Nicholas Knight was elected chairman, and maybe I thought about being chairman, or was chairman before it actually came into being.

Senator MONDALE. Why did the Youth Incentives have the same post office box as your company?

Mr. WINTERS. When?

Senator MONDALE. June of 1973.

Mr. WINTERS. In June of 1973, and this is something I did not want to get into, but apparently it is the only way for the truth to come out. And for the truth to come out, you must get into it.

In June of 1973, I was waiting trial for murder for 3 years almost, and every month I would be told that I would be going to trial. And every month I would prepare to go to trial.

And, so, what happened, like my company and everyone worked closely together, and my post office box was out, and apparently Ron needed to get mail sent, and he used that as a post office box.

I was acquitted, and I think in the fall there will be a TV movie about it, so you can get all the facts then.

Senator MONDALE. We talked earlier about hiring children.

Mr. WINTERS. No. Youth.

Senator MONDALE. Were you charged in Greenwich, Conn., in 1965 with employing children, and did you pay a fine for doing so?

Mr. WINTERS. I thought I was charged with peddling without a license.

Senator MONDALE. Yes.

You might respond to what our records show, and that is that you were charged and paid a fine for employment of children in Greenwich, Conn.

In Westchester County, N.Y., in 1968, you were charged with endangering minors and violating labor laws, and paid a fine of 30 days——

Mr. WINTERS. In Westchester County, sir, that went out on appeal, and the records had better show that.

I won that on appeal.

And one of the dumb child labor laws, and I won that, and your records should indicate that.

Senator MONDALE. I wanted to be fair.

Mr. WINTERS. I know that, sir.

Senator MONDALE. You brought up a rather larger matter. I knew you were acquitted, and I think that is for that court to decide. And I am only bringing up the matters that our records show that you pleaded guilty and you were found guilty.

Mr. WINTERS. I have been found guilty for peddling without a license numerous times. And I see nothing wrong with it.

Senator Mondale. I am getting at the employment of children in Greenwich, Conn. And I find that you paid a fine for doing so in Westchester County—I will withdraw that.

You say you won that on appeal.

Mr. Winters. I won it on appeal.

Senator Mondale. In Seattle, Wash., you were charged with contributing to the delinquency of minors and violating peddlers' licenses.

Do you know about that?

Mr. Winters. I won on the contributing charge, and I lost on the peddling charge. And it was a tough case that went to the Supreme Court. And the Supreme Court refused to hear it. I won on the contributing charge at the first court level, to the best of my knowledge. When I referred to a tough case I was referring to the peddling law case.

Mr. Marx. Senator, what—would you state when that was, please?

Senator Mondale. February 26, 1964 in Seattle, Wash.

Mr. Winters. Senator, anytime—like I have been arrested numerous times, and I do not see anything wrong with my being arrested because I was doing something that I believed in, and I still believe in. And I make the statement that most of the arrests came about because I was working with black youths that I started doing in 1958.

On the Greenwich, Conn., thing, that was not what my understanding was, that I pleaded guilty to. But if the records show that—but, to be charged with contributing, if you were soliciting in the town and they wanted to be hardnosed, and they would charge you with contributing.

I was not giving them booze or doing anything immoral. They were out there selling, and that is how the charges came about.

Senator Mondale. Did Mr. Frank Greentree work for you?

Mr. Winters. Frank Greentree?

Senator Mondale. Yes.

Mr. Winters. Yes.

Indirectly, he worked for me.

Senator Mondale. Was he charged with false advertising?

Mr. Winters. He won on that, too. We wanted to forget about that, do we not?

Senator Mondale. Did you win that one, too?

Mr. Winters. I was not charged with that. He won his false advertising. And I was waiting to go to trial. And they were harrassing everybody that worked for me, "and we did one thing 100 percent legal." I have no idea of what is meant by that. I do not mean to infer that I only did one thing 100 percent legal. What I think I was referring to was that how according to the Federal laws and State laws, whichever law it is, when you are packing a product for an organization there must be an address for that organization to receive mail, and that we were packing merchandise for Innercity Youth Corps, and we used our address and our zip code which is legal. This is not uncommon practice to be done in the packing industry—in fact it is done quite often to the best of my knowledge. When I state that we hated each others guts I was referring to the

264

city of Glen Cove and myself. What happened was Greentree came up to get merchandise. Tom Wade was there to give him merchandise, and Greentree pulls his truck in, two policemen were waiting, and they came in, and because he was on the premises they charged him with false advertising. Tom Wade and Frank Greentree were both charged with false advertising, and they won. I would like to point out, I think that was the first time anyone was ever charged with that one particular section of the law. It was a harrassment charge, since they could not harrass me they were harrassing those around me.

Senator MONDALE. Does Thomas Wade work for you, or did he work for you?

Mr. WINTERS. Thomas Wade worked for me off and on at different times.

Senator MONDALE. What did he do for you?

Mr. WINTERS. Like it depends on the time. Like in 1970, and I think, and I am not sure, but like Tom Wade worked for Youth Incentives and Youth Incentives could not pay Tom Wade. And not only Youth Incentives is a valid customer which I state right out, but I was trying to get—I felt if I could make Youth Incentives go, that I would prove that my idea was worthwhile. And would repudiate all of the arrest charges in the past, and that would be an asset to me.

And so when Youth Incentives could not pay Tom, I would give him a job, and Tom is a very good worker. And springtime would come and he would go back to work for Youth Incentives.

I do not see anything sinister in that.

Senator MONDALE. Did Mr. Wade work with the children directly, or what did he do for Youth Incentives?

Mr. WINTERS. Senator, a ghetto youth of 13 is not a child.

Senator MONDALE. I believe that.

Did Mr. Wade work with the youths?

Mr. WINTERS. Directly?

Senator MONDALE. Yes.

Mr. WINTERS. Yes.

Senator MONDALE. What did he do?

Mr. WINTERS. He would be a counselor. He would train them.

He also ran the summer camp and was in charge of New Jersey at one time.

Senator MONDALE. Okay. Thank you very much, Mr. Winters.

The next witness is Morrie Friedman, Executive Director of National Youth Clubs of America.

You may proceed.

STATEMENT OF MORRIE FRIEDMAN, EXECUTIVE DIRECTOR, NATIONAL YOUTH CLUBS OF AMERICA

Mr. FRIEDMAN. Senator, I have no prepared statement nor am I here with counsel, because I have nothing to hide.

Go ahead and fire away.

Senator MONDALE. You are the Director of Marketing for National Youth Clubs, and what is your responsibility in that position?

Mr. **Friedman**. It is to oversee the entire organization and connected with marketing and finance.

Senator **Mondale**. Where are you located?

Mr. **Friedman**. We used to be located at 1000 Skokie Boulevard, Skokie, Ill., and are now located at 568 West Main Street, Lake Zurich, Ill.

Senator **Mondale**. Did you form the National Youth Club?

Mr. **Friedman**. Yes, I did, sir.

Senator **Mondale**. What does your organization do?

Mr. **Friedman**. Well, National Youth Clubs is unique in the sense that it does not employ children or youth in any capacity whatsoever.

My basic business has been National Youth of America, which is for profit entity which, in turn, sells licensees for distributors and gives them "trade secrets" to perpetuate the business of candy sales or consumable items on a door-to-door basis.

Senator **Mondale**. What do they sell?

Mr. **Friedman**. We were the exclusive distributors for E. G. Whitman candies since 1854, and west of the Mississippi, and became the second largest distributor in the United States.

Senator **Mondale**. What was the gross of the National Youth Clubs in 1973?

Mr. **Friedman**. 1973 gross total—gross sales were approximately a million dollars.

Senator **Mondale**. One million dollars.

Those were sales through the National Youth Clubs and the sole function of your efforts, or did you——

Mr. **Friedman**. I do not understand the question.

Senator **Mondale**. Your organization charters or franchises youth clubs, and they sell candy, is that right?

Mr. **Friedman**. OK.

Senator **Mondale**. And you sold a million dollars worth in 1973?

Mr. **Friedman**. No.

The total growth gross sales, and that included franchises as well as the sale of candy.

Senator **Mondale**. How much of it was sales and how much of it was franchises?

Mr. **Friedman**. Approximately $500,000 represents franchise sales or licenses, and $500,000 represents the sale of consumables.

Senator **Mondale**. Where did the consumables come from?

Mr. **Friedman**. E. G. Whitman, Bridgeport, Penn.

Senator **Mondale**. You are the broker, in effect, for the Whitman Co., and then these franchise outlets sell it?

Mr. **Friedman**. That is correct.

The franchise business creates what I consider to be a backdoor marketing approach to merchandise.

In other words, first we go out and set up a distributor, and then facility, and go into business and reap the profits from it.

Senator **Mondale**. Do they sell door to door basically?

Mr. **Friedman**. Sold door to door.

Senator **Mondale**. Who are the salesmen?

Mr. FRIEDMAN. Each—this does not shed any light as far as this is concerned, but our total program is done with wealthy people.

As we call them chapter members, and a chapter member is responsible, okay, because they are a member of the community and, in other words, the individual that purchases the franchise has a home and lives there and is responsible for the actions of his coordinated group.

The National Youth Clubs goes in initially and hires him and children, okay, to facilitate our contractual obligation. And, in turn, hires a crew manager, or he acts as a crew manager and, in turn, they solicit—no, that is the wrong word. In turn, they sell candy on a door-to-door basis and cookies, and occasionally popcorn and candles.

Senator MONDALE. But the basic sales procedure through these franchise outlets is through hiring youth to go door to door?

Mr. FRIEDMAN. I do not like the term "youth." I prefer the term "children."

Senator MONDALE. You hire children?

Mr. FRIEDMAN. Yes, we do.

Senator MONDALE. Do you have any trouble with the child labor laws?

Mr. FRIEDMAN. There is a case pending in Federal Court right now in the State of Illinois.

Senator MONDALE. What ages are they hiring?

Mr. FRIEDMAN. Again, the Youth Clubs doesn't hire the children. Normally, they start out at the age of 8 or 9, because these are the individuals' parents, and they are children who are working for them in many cases. And they sell on a door-to-door basis.

Senator MONDALE. You say there is a legal dispute underway?

Mr. FRIEDMAN. In Federal Court, there is a legal dispute because I maintain, and I do not know if the committee wants to get into it now, but I maintain it is an arbitrary decision of the State of Illinois to set the age limit for profitmaking entities of which National Youth Clubs is one, and I discriminate totally when it comes to newspapers, because that is the prime example.

Senator MONDALE. Newspapers have children delivering them.

Mr. FRIEDMAN. They have children working and soliciting, or shall we say for subscriptions, and these children work and they earn money for their efforts. But they are under the age of, let us say, 16 or 14 years old. And normally it is a paperboy who delivers the paper which is exempt under the decision because it is the freedom of the press.

Senator MONDALE. I have, I gather, what is a promotional flyer here called National Youth Clubs of America, Incorporated, Lake Zurich, Ill.

National Youth Clubs of America represents E. G. Whitman and Co., in addition to being their second largest distributor. And they are the exclusive distributor west of the Mississippi.

Mr. FRIEDMAN. Correct.

Senator MONDALE. The company operates through local area licensees, and all of whom place the merchandise deposit, depending on the size of the area?

Mr. **Friedman.** Correct.

Senator **Mondale.** And each licensee is supplied with field training and open inventory and two crews, and the necessary forms of trade secrets.

And what do you mean by trade secrets?

Mr. **Friedman.** Well, that is the method of operation to instill and you could say goals with the children who are selling, and how to properly hire a crew manager so you do not get some degenerate looking for a job for extra money.

We have a method, and I supplied the committee with National Youth Clubs exclusive operating in which it gives all the trade secrets.

Senator **Mondale.** N.Y.C.A., National Youth Clubs of America, reports retail, $1,600,000 over the last 6 months, and would that be accurate?

Mr. **Friedman.** That is an estimate based on what all the chapters are doing, yes.

Senator **Mondale.** How many children are employed in the sale of items for these franchise outlets?

Mr. **Friedman.** I would say 25,000 to 30,000.

What I would like to state is that children work on an independent contractor basis. Independent contract basis, and they are paid immediately or remunerated immediately for their efforts.

Senator **Mondale.** We are a little confused.

I asked earlier what your annual gross would be, and I thought you said about a million dollars.

Mr. **Friedman.** That is correct.

Senator **Mondale.** But this seems to say it is $1.6 million.

Mr. **Friedman.** That is correct, because you are asking what National Youth Clubs, and not all of the distributors.

Senator **Mondale.** So, in other words, the gross sales at the sales level may be $3.2 million, and the proceeds to your organization about $1 million?

Mr. **Friedman.** Correct.

Senator **Mondale.** All right.

And then you say each licensee contributes to a scholarship fund which is matched by the company, and this fund is given to the best salesman?

Mr. **Friedman.** Each distributor is recommended because he is an independent business man, and we cannot force him to do anything.

It is recommended that 2 percent of the net or the man's gross sales, and he deposits in a separate account with the bank to be held in escrow and be given to his top salesman. And this particular thing did not go over too well, because the distributors became greedy.

Senator **Mondale.** Not too much money out in scholarships then?

Mr. **Friedman.** No.

It depends on what somebody's interpretation of what scholarship is.

Our man in Kalamazoo, Mich., and he gave six scholarships to his—and his name is William Orwell, Jr.

Senator MONDALE. Would that be unusual, that number of scholarships?

Mr. FRIEDMAN. No.

$25 U.S. Savings Bonds and our distributor in Columbia, Mo., and we match 2 percent of the distributor's net reorder.

Let us say $1,000 a year as an example.

And he send the check for $20 at the end of the year——

Senator MONDALE. That is supposed to go for scholarship?

Mr. FRIEDMAN. Yes, supposed to go for scholarship or recreational facilities, or whatever he wants the money to go toward. And you have to remember that we can suggest things.

Senator MONDALE. You do not require distributors to set up, but you recommend it?

Mr. FRIEDMAN. I was told it was illegal to require anybody to do anything when they are an independent business man. And we recommend it. Simply recommend.

Senator MONDALE. For whatever reason you recommend, you don't request. And you say presently on the drawing board is a note for profit foundations designed exclusively for fund raising.

This entry would be designed to help educate those who are less fortunate.

Now, would you explain what that is?

Mr. FRIEDMAN. I do not remember. I cannot, because the only thing that I can think of was that in the State of Florida we were running into such problems as to "door-to-door solicitation or sales working children," and fighting ordinances that, according to our attorneys there, the best thing to do was to form a not-for-profit corporation and sell to the corporation to circumvent the street laws.

Senator MONDALE. That way you can continue selling candy and so on?

Mr. FRIEDMAN. Well, that way, the distributors can continue to sell it.

Senator MONDALE. To keep that market?

Mr. FRIEDMAN. Correct.

Senator MONDALE. Was that done?

Mr. FRIEDMAN. I do not know, sir.

Senator MONDALE. It was not?

Mr. FRIEDMAN. I said I do not know. I do not know if the distributors went ahead and did it or they did not.

Senator MONDALE. I have here an application entitled "National Youth Clubs Foundation, Inc., a registration of a State application in the State of Florida to establish a nonprofit corporation."

Mr. FRIEDMAN. I have never seen it.

Senator MONDALE. In other words, you are unaware of that?

Mr. FRIEDMAN. If you are holding that document, I have never seen it before.

Senator MONDALE. You know nothing about it?

Mr. FRIEDMAN. Well, there is or there were, I mean—Joan Buchard was a distributor in Peoria, Ill.

Senator MONDALE. Joan Buchard was what?

Mr. Friedman. A licensed distributor out of Peoria, Ill. And I can supply the committee with the address and everything else.

I do not know what she would be doing in Florida, but——

Senator Mondale. What do you call your enterprise National Youth Clubs?

Would not this name lead the public to believe that you were running a charitable enterprise rather than a business?

Mr. Friedman. Probably.

Senator Mondale. Do you get a consent from the parents of children who participate, or do the franchisees?

Mr. Friedman. Each distributor, as I stated earlier, is responsible, not only to the people who live in this particular community, but to the neighboring communities. And before a child is hired by a distributor, normally he talks with the parents because he has his money up, so to speak, and it is up to him, not only to make a good success of the business, but also to keep the rapport in the community at a satisfactory level. And that is why the rigid standards were kept as far as the sale of the candy and cookies and all items.

We would never permit a distributor to go ahead and buy merchandise of an inferior quality and sell it with our label on it.

All the children that work—and I still say they are children—have their parents come to the distributor's home or office and explain the program and sign a consent form, and an independent contract or agreement.

The city of Gary, Ind., drew up for us, and they wanted the program there so badly, and the laws were ridiculous. And they worked with us to draw up this agreement. And it has been very satisfactory.

In a town such as Davenport, Iowa, and there is a $10 registration fee, and really no age limit as to door-to-door sales.

We never had a problem.

Again, I maintain that as long as the Campfire Girls or the others—let us say major institutions—can sell, using children—and that is to me what they are, children—and then I do not feel that as long as a parent understands the proper supervision and guidance with the child when he is selling, that it is such a detriment to the child.

But it is not for me to decide.

Senator Mondale. Thank you very much.

I would like the following witnesses to come up together, Donald Mulack, assistant attorney general, chief of litigation, State of Illinois; Carol Cochran, director, commission on charities, department of state, State of Pennsylvania; James Amico, coordinator of charitable solicitations, office of the attorney general, State of New York; and Robert Green, coordinator of charitable solicitations, department of state, State of Florida.

It seems to me, and I would like each of you to respond, that what we have seen here is a practice which involves the sale of millions of dollars worth of goods to citizens of this country.

There are several problems connected with it.

Many times we find a for-profit organization operating under a corporate name which implies it is charitable when it is not. They lead the public to believe that they are buying something from the Girl Scouts or Campfire Girls, and that the money is being used for a charitable purpose when the amount of service being provided is so minimal as to be meaningless.

And we see a conflict of interest or the potential conflict of interest where the commercial organization in sales will set up a so-called nonprofit organization, which is largely dominated by the candy or other sales organizations.

And you have the question of protection of the child and the youth whose services are being used.

Do they violate the laws?

Are these youths properly protected?

Are those who are dealing with them persons of reputable character and safe backgrounds?

And we have with us today a panel of experts and specialists in this field from New Jersey, Florida, Illinois, Pennsylvania. And we will start with Pennsylvania.

STATEMENT OF CAROL COCHRAN, DIRECTOR, COMMISSION ON CHARITIES, DEPARTMENT OF STATE, STATE OF PENNSYLVANIA; ACCOMPANIED BY ROBERT GREEN, COORDINATOR OF CHARITABLE SOLICITATIONS, DEPARTMENT OF STATE, STATE OF FLORIDA; JAMES AMICO, COORDINATOR OF CHARITABLE SOLICITATIONS, OFFICE OF THE ATTORNEY GENERAL, STATE OF NEW YORK; AND DONALD G. MULACK, ASSISTANT ATTORNEY GENERAL, CHIEF OF LITIGATION, CHARITABLE TRUST AND SOLICITATIONS DIVISION, STATE OF ILLINOIS, A PANEL

Ms. COCHRAN. I think the answer to what you asked is yes.

I would like to touch a little bit on the National Youth Clubs (NYC), since Mr. Friedman was up here.

A couple of points you may not be aware of, and we found out these facts that were interesting.

First of all, the company was organized in Illinois and called Home Interior Design, Inc. And a year after it organized, it changed its name to National Youth Clubs of America, and amended its purpose to include sales of items of all types and nature for personal consumption.

We found that interesting in Pennsylvania, because by doing that, selling consumable items, our sales tax can be avoided and you do not have to report what you are doing on the sales tax law.

We found for that kind of operation the child labor laws are violated because no child or youngster, or whatever you want to describe the person as, can, under the age of 14, be engaged in any kind of sales except for caddies on the golf courses, unless it is a news carrier that buys all of the newspapers and sells them.

We were interested in the literature, and nothing indicates that the child or children or parents are involved. Rather, it is the crew chief and/or distributor.

Senator MONDALE. What do they do, go out and recruit the kids at school or on the streets?

Ms. Cochran. The literature, and Mr. Friedman probably knows better than I—the crew chief is responsible, and they advertise in stores and in newspapers and approach schools, trying to get children into meaningful employment after school. But the real big question comes up, and I am not a lawyer, but the question of franchising. And I think it is difficult with the gentlemen on the floor and another organization as far as using handicapped children, but what constitutes doing sufficient business when you are franchising?

In our case, with this company in Pennsylvania, all the papers were signed in Illinois, and the only contact was through the sale on consignment of cookies and candy.

Senator Mondale. How does the State reach this problem?

Ms. Cochran. The long arm statutes.

Senator Mondale. Which never has been a good remedy.

Ms. Cochran. Right.

And you are getting into questions of franchising, and what you are doing with that and child labor and what you do with sales taxes.

Senator Mondale. Mr. Mulack.

Mr. Mulack. Thank you, Senator Mondale.

In response to your question about the supervision that is given the children out on the streets, we find that most of the supervision is in the hands of the crew manager.

The crew manager, controls the whole procedure that we call the Fagin operation.

Fagin, from the early English history, is using children to sell. And, of course, to pickpocket the public. The Fagin operators pick the children up at local grammar schools and advertise in the candy stores through 5 inch by 8 inch posters on the windows or on trees stating that children are wanted and can earn up to $20 or $50 per week.

The child is picked up that evening or the following day and taken to a more affluent neighborhood.

We have found in Chicago particularly that the children from the white neighborhoods are taken into the suburbs. We have not found that many black children have been utilized. In any event, these children are not given any proper instructions, as we see it.

Of course, when we talk about proper instructions, we mean that the child should be told that this is not a charity operation, and they are selling just to make money for themselves and their promoter, and namely the crew chief driving around in the car.

Senator Mondale. The counselor?

Mr. Mulack. The counselor, or whatever the term used. The crew chief has normally five children in the car, he drops them off in the neighborhood and circulates through that neighborhood. The children go door to door and sell their boxes of candy or cookies for $1.50 or $1.75 and is given 25 cents of that price. The balance goes back to the crew chief or the company.

Now, interestingly enough, Mr. Friedman testified to the use of crew chiefs and distributors. We find that the distributor who may buy a franchise, the operator of the company, retains $1.25 for his pocket. Only 17 percent of the money taken from the consumer at the door, or 25c goes to the child.

Additionally, we have found experiences of abuse occurring, and particularly on page 3 of my statement, if I may read from that:

> In January of this year, four children, ages eight, ten, eleven and twelve years, were taken from a lower economic neighborhood after school and transported far away by a crew manager to sell candy in the low-freezing temperatures. After two hours of selling, the children were cold and sought to enter the auto to warm themselves, but were refused by the crew manager because they had not sold enough candy. When the children attempted to enter the auto, the crew manager physically grabbed the 11-year old girl by the leg and pushed her out into the snowy wet street. The children were then informed they were fired and were abandoned on a strange neighborhood without money for transportation to return home.

This is only one example. We have several reported cases of this occurring to children who are being used and coerced into selling more than they are capable of.

When you look at an 8-year-old child, how can he possibly go to 100 doors or down 4 or 5 streets to sell?

We might mention another incident typical of the complaints received by the Attorney General's office.

We find that children are falling asleep in their classrooms during the day, and they become disruptive. Upon investigating, find that the children have been out selling the night before and are brought home at 10 or 11 o'clock at night. These are the abuses we find; and, there are statutory powers in Illinois enacted to remedy this problem.

Senator Mondale. If I might interrupt, you also say you found situations where the children had been assessed money by the crew chief, and they might not get the modest share they refer to.

Mr. Mulack. That is correct. If a crew of children—maybe we'll find that for that one car, for the crew chief—if the children didn't sell enough, then the crew manager doesn't feel that he has made his quota for the day. The children in that car may have made a dollar apiece, yet we have found instances where they have been assessed 50 cents apiece to pay the crew manager for his gas. Which means that the child could go home that night after working with possibly 50 cents remaining in his pocket.

Senator Mondale. That reminds me of hearings we held where the crew chief was the character we finally decided had to be regulated, and we passed the crew-chiefs law——

Mr. Mulack. Yes. Might I continue, now?

Senator Mondale. Proceed, please.

Mr. Mulack. Our labor laws, chapter 48, section 31.1, proscribe certain types of dangerous and hazardous occupations in which children under the age of 16 cannot be employed. One of these sections defines a hazardous occupation as a delivery or messenger service. Another section of that law prevents children from being employed in or about power-driven machinery, and yet another section states that those persons who permit or employ minors to work in violation of the act are guilty of a misdemeanor and should be punished by fine and imprisonment.

We have had several successful convictions using that law, maintaining that the transportation of a child from his neighborhood into faraway places is the operation of a delivery or messenger service, and likewise the transportation of these children by an automobile into other neighborhoods is the use of power-driven machinery in the employment of youth.

While the candy companies have recently filed an action now pending in the Federal District Court in Illinois, seeking to declare the law unconstitutional, we will continue to enforce this law in the true spirit of its enactment—namely to protect children of tender age from being exploited, harassed and abused; that is, unless the law is declared unconstitutional, and we hope and trust this will not occur. If I might now, without going into the full statement——

Senator MONDALE. Yes. Why don't you get to this misrepresentation?

Mr. MULACK. We have found of the operation, if I might be allowed to give a little more background—that it began approximately 2 years ago in Illinois, and has spread to the surrounding Midwestern States, as was earlier testified to by Mr. Friedman. This was largely due to the efforts of several promoters who saw the advantage of a quick money scheme, at the expense of young children between the ages of 8 to 15. Senator, we have found that the mean age of the children being employed is from 8—from 9 to 11, and it centers on the average of about ten years of age—children who just don't know any better and who can be misled and misguided very easily.

The Fagin operators have moved into this market quite readily, and are trading on the background of charity and goodwill that was built by earlier groups that employed children; namely, Boy Scouts, Girl Scouts, church groups, and civic groups.

The box of candy that would be sold in the Fagin scheme, as I mentioned, at $1.50 or $1.75, would only cost the company 30 cents or 50 cents.

So again, we see a tremendous amount of profit, literally hundreds of thousands of dollars being realized—being taken from the public.

Senator MONDALE. Yes, that is very interesting.

Mr. MULACK. I would like to go on with these examples. Our office has repeatedly exposed certain Chicago firms who have calculated to mislead the public into believing that charitable organizations are involved.

I notice by Mr. Friedman's testimony earlier given that he, in effect by his silence, and by definite statement, admitted that perhaps these names were misleading.

Senator MONDALE. As I recall, when I asked him that, he said yes; he was indeed very candid.

Mr. MULACK. That is correct. These names trade, again, upon the aura of youth, and are changed, altered, or dropped depending upon the amount of adverse publicity received in the local media.

An example of some of these follows—and some of them are currently operating in the Chicago area, in Illinois and have folded for one reason or anoher. Examples of these names are: National Youth Clubs of America; United Youth of America; United Boys Group;

274

United Youth Group; Opportunity for Youth; Employment for Youth and; Student Opportunities for Self Achievement.

Senator MONDALE. In every case, these are just sales organizations?

Mr. MULACK. Right; entirely sales organizations and trading upon the name of youth groups which change from time to time.

Senator MONDALE. It is your feeling and belief that the citizen who sees the Girl Scouts, Campfire Girls, et cetera, and the practice of a lot of local organizations and so on, when he sees the child come to the door and say: "United Youth of America," they think they are not just buying candy. They think they are contributing to a service for the child—some kind of scholarship, recreation or something, camps or some such thing, and of course, their answer is: "Well, we are contributing; we're teaching this youth how to work, how to take care of himself, herself."

How do you answer that, that the employment is therapeutic?

Mr. MULACK. Well, if that is the question, let us go back one step further.

The consumer at the door sees the young tyke standing in front of him with a box of candy to be sold for $1.75. That consumer knows that that box of candy can be purchased for approximately 75 cents in a local store, or a similar type candy for 75 cents, so that the additional dollar that the consumer is going to pay is going for a charitable purpose. That purpose was created by the aura of the young person talking about the scholarship, talking about the prize—something that will benefit him.

Now, we maintain that $1 additional, over and above the cost of the candy, should go into the area of the public trust, like any other charity, and a full accounting, a full disclosure should then be required by the people who are holding that money, as to what has happened with it.

Now, as to statements made about scholarships, the National Youth Clubs of America, although their literature is replete with reference to scholarships and we have statements in our office which mention that consumers would not have made the donation unless this scholarship angle was given—we found that no scholarships have in fact been given, in the true sense of that word. And Mr. Friedman again indicated "depending on what that term meant."

Well, anyone who is familiar with the term "scholarship" knows it means a scholarship to some school, some trade school, some association, and not necessarily additional money just to be put in a student's pocket to purchase an item that he might want.

Leaving the control in the hands of the crew chief as to how this scholarship money will be spent is merely a way of the top management of these youth clubs circumventing the charitable trust law, so that they are exempted from any responsibility of ever reporting it.

So it is our concern that the reporting statutes bring forth total recognition of what is occurring.

Now let me get to a final point if I might, Senator, which you raised in your earlier charge to the four members sitting before you on the panel, as to the reputation of those people involved in candy operations that have been found to exist.

If I might relate what we have found in Illinois in our investigations, and what we have found in talking to other States, about the reputation of the person in charge of the National Youth Clubs of America—namely, Mr. Friedman.

We have found that his background includes several arrests, including pleas of guilty as well as convictions under certain statutes in Wisconsin, Florida and Illinois.

Senator MONDALE. I think in fairness to Mr. Friedman, you ought to be specific. Let's just deal with guilty findings; well, let's skip the charges. What has he been found guilty of?

Mr. MULACK. Mr. Friedman pleaded guilty in Clearwater, Florida, about 1971 or 1972—I'm sorry I don't have the date; it is in my file—to grand larceny in the operation of Family Care Products, Inc.

He was enjoined from selling distributorships in Illinois in 1973.

He is under an injunction in Wisconsin to make restitution, fines of $50,000 for theft by fraud in connection with a previous association that he was in charge of. I have a document, which I will tender to the subcommittee, where, in 1972 a group that he was associated with, called United Boys' Group, and another offshoot of that called United Boys' Group International, which is a franchise arm of United Boys' Group, filed bankruptcy in the northern district of Illinois. In that bankruptcy statement, although it is signed by the then president, Mr. John Vander Lecq, he does list that Mr. Morris Friedman, had taken $50,000 for his own personal use. We are waiting to see if anyone in United Boys' Group will file charges on this alleged misappropriation.

I don't bring these points up just to create problems, but it is in direct response to a question that this subcommittee asked.

Senator MONDALE. What troubles me here is that anybody can go into this business, and apparently go out and round up kids and create this impression on the part of the people that they are really helping the children, helping the youths, social services, yet at risk to those children.

Many persons may be fine—I don't know, but there is nothing to prevent a swindler, you know, a person whose moral character and behavior is questionable, from moving into this business.

I don't mean to say—well, I don't know about that, but it's possible, and we have no way of protecting them now unless the states adopt something which would do so. Is that correct?

Mr. MULACK. It is the Illinois Attorney General's position that through newspaper stories and radio spots, as well as the prosecution under our child labor laws, we can solve the problem in Illinois.

We would hope that as a result of these hearings, and as a result of the publicity throughout the country from this, that the states will take it upon themselves to enact uniform state legislation so that these groups can not then go across State lines, and circumvent Illinois law by going into Pennsylvania and Florida. This is what we find occurs.

Youth Incentives operated in Illinois back in 1971; it has not since then, we believe, because of the laws.

Senator MONDALE. I am an old Attorney General; I used to meet with Attorney General Clark. We set up and started doing some of this work, and I want to see it go on in good shape.

But we found that just as soon as a State got effective, these characters run. They go somewhere else, and as a matter of fact, one of our witnesses previously said: "We just don't operate in States or communities that ask questions." They just keep moving.

And I think we do need strong State programs, and I think the truth of that shows here, that we have more outstanding programs, and you have been into it to help us understand it better, and we can understand it ourselves. But I wonder whether some kind of national reach is required here?

You referred to the "long arm;" we've tried to assert that long arm with no success at all.

Mr. **GREEN**. I think that has been the problem which we have faced. About 3 months ago, the National Association of Attorneys General called a conference——

Senator **MONDALE**. In Atlanta.

Mr. **GREEN** [continuing]. In Atlanta, and at that time all the States with similar regulations—and I hope that was every State—came in to it.

We were able to exchange information. In the State of Florida, the base of exchange of information that we had with other States, we being able to curtail some shady operations, and in turn notify or make the other States acquainted—I think that could be one of the areas.

I think that the creation of a national center of information, in which every State would notify that center of information of any investigation conducted for this purpose would serve perhaps to put a stop to this kind of operation, and your question as to that, would let them eradicate many other things, including provisos, councils, whatever they want to call them.

We have had this experience—myself, my office, not only of being solicited at my home, but they came to our office in Coral Gables, and some of the department of State offices.

This is how the crew operates; we have 37th Avenue, which divides Coral Gables and Miami. They drop the kids off in Coral Gables and then they would pick them up in Miami, because they know that there are very strong solicitation laws in Coral Gables, so they don't want to face the arrest at the time of pickup of those kids in Coral Gables. So they just make them cross the street. And they go from one municipality to the other.

It means—it is not only deceiving in the tactics used to sell the candies, but also it is immoral in violating the laws of picking up the kids themselves.

I think that some way, some means—somehow we have to get to a national situation. We are facing a national problem on these particular candy sales, and many others in reference to which we are speaking here.

Senator **MONDALE**. Mr. Amico, would you respond to the question, or make any observation you think you might wish to?

Mr. **AMICO**. Yes, sir.

With regard to the business corporations using misleading names, this should be a matter of security by provision of the secretary of State's offices, so that we could possibly prevent the registration, and put an end to that in the various States.

But I find also that the business corporations with misleading names use youth—or children, whatever you want to call them in this particular instance—as a sales vehicle, and they also form—or perhaps the officers who are representatives of those organizations—form nonprofit organizations which are the vehicles by which they sell their products.

I have found many of these youth organizations are these nonprofit organizations that have solicitors, children, girls, so forth, that seem to violate Federal and State laws and also the laws with regard to protection of the children, such as compensation, and matters of that nature, and we have to turn these over and refer the investigations, after we have done the job on this.

There should be complete disclosure as far as the officers and directorships, and anybody that wants to participate in these organizations, with a form of consent to belong to these types of organizations such as a trustee, and as far as the charters are concerned, the states could possibly legislate these nonprofit organizations or business institutions so that they would have to stick closer to the stipulated endeavors of their corporations within their charters.

We have to police that, and we do police it; it seems that the children and youth of America, via this avenue, tend to be second-class citizens. They have no protection, and this is one of the avenues I have been fighting for for many years of my life. I think that they should have first-class citizenship, they should be protected.

If they are going to be sales personnel for any institution, whether it is nonprofit or profit, they should be duly compensated through some regulatory system where they will not be paid 30 cents after working 10 hours trying to sell a box of candy or a magazine or a book.

We have a typical case under investigation right now, where a girl 17 years old was recruited from New Jersey, transported to Ohio and to other States throughout the South, and was finally hit by a truck in—in your State of Florida, Mr. Green—killed, and no one knows what is happening, what compensation—no social security, no workmen's compensation; her family had no money even to bury the child, or to transport the child back to her home State.

Senator MONDALE. You talk about the use of children or youth in a community. Is there evidence that sometimes they will take these youths substantial distances, say from New Jersey to Florida, and so on, for purposes of——

Mr. AMICO. This has happened in the magazine area, in magazine sales and subscriptions, but there are further ramifications as far as the magazine sales are concerned. They turned out that they were not selling magazines alone, and this matter is under investigation right now.

But I was trying to cite the importance of the protection of the youth, and we must have more stringent laws. And every one of these organizations are violating one of the Federal or State tax laws, income tax laws, the sales tax laws, and the compensation and insurance laws, and the labor laws, and we have to turn them over to these different departments from time to time.

Ms. COCHRAN. In response to that question earlier, I think it all depends on how many franchises you have in a State. I wanted Mr. Mulack to speak to the other point, but I did think that we passed over franchises too quickly.

Senator MONDALE. All right. Why don't you get into that?

Ms COCHRAN. The point is that there is a great deal of pressure on the person who holds the franchise to make good, because that person usually has put up $5,000, in this particular case, as a surety, and has agreed to sell $20,000 worth of consumables over the first 5-year period. So I think this problem begins there.

Senator MONDALE. In other words, to get his deposit back he has to——

Ms. COCHRAN. They have to sell that much to begin with, and then it's up to them as to what kind of enterprising crew manager they hire and how much to charge.

But we have found, depending on how many franchises there were in an area, the area of activity is at least geographic.

Mr. MULACK. Elaborating on that point, some of the experiences of Illinois indicate that whether the franchise is selling for $4,000 or $5,000, the same basic ingredient is given back to the person who purchased the franchise; namely he gets 1,000 boxes of candy, and along with his purchase he gets a 1-week training course. He will be given eight boys to go out and sell in the community—again, young children, and he will be given two crew managers, plus the "trade secrets" that were mentioned. Those are, namely, how to sell, how to circumvent certain local statutes and ordinances.

Now, based upon this package, I can state that Mr. Friedman is an expert in the area of franchising, and he has started many people along the way in Illinois, to this type of business.

I might also mention that we have found in our investigations that certain candy companies also—and I am talking about candy manufacturers—are also involved in this, because they see the outlet as a ready source of money. There is one in Illinois who was also involved in United Youth of America—F&R Associates, and as previously mentioned, E. G. Whitman Candy Co. is involved, and has given an exclusive franchise to National Youth Clubs to sell their candy. And, of course, within the trade, it comes to a question of who has the better candy. For instance, when a person pays $1.50 for a box of candy, which they know is $1 too much and they sit down and eat it and it's stale—they get mad.

But if it's a good piece of candy, they will again think: "Well, I helped a young person." So that has a lot to do with the psychology of the salesmanship that takes place within these distributorships.

There are many operating in Illinois; all of them seem to emanate from the same source of a few years ago. We feel, again, through the application of the child labor laws, and getting at that crew manager—who many times is the person who purchased the distributors—in arresting him, many times we can stop this particular problem from occurring again.

Senator MONDALE. Now, we have heard testimony that a lot of these kids are from the ghetto and so on, and life isn't very rosy for them there, and they are coming along on these jobs, getting a chance to sell, a chance to do something, and that may not be too hot, but the alternatives aren't too hot either.

How do you respond to that?

Ms. COCHRAN. Well, I was interested in hearing in the testimony that in the literature, one of the objects, the goals of the organization, was to build character, and I don't think it's building someone's good character to teach them how to rip off the public, first of all.

And certainly, you don't try to change a child's life from the ghetto—if indeed any ghetto kids are involved—through this program.

Mr. MULACK. Expanding on that point for a moment, if the intent of these organizations is to help that ghetto child—and I really question that intent—I say it is to use and exploit that child and to gain some sympathy from the public—then the child on the street should get more than 25 cents a box. He is the one walking up and down the neighborhoods in the cold, rainy weather; he is the one transported 20 miles across town to unfriendly territories. He's the one that does the selling, gives the sales pitch, so to speak. Twenty-five cents out of $1.50 is not helping that kid when he has to sell 10 boxes, perhaps, just to make $2.50 for that night, and to sell those 10 boxes he probably has to go to 100 to 200 homes.

Senator MONDALE. Mr. Green?

Mr. GREEN. In the State of Florida we have had several programs to help ghetto kids—programs to help ghetto kids. As a matter of fact, we have one in Cocanut Grove where, by the time those kids are out of school, they form a nonprofit corporation, registered with the State, in which those kids go and mow lawns, clean windows, and perform various things, get paid the minimum wage, and we don't have objection to kids working, if these organizations comply with the laws in the State. Either with the Charitable Funds Act, if it is a nonprofit organization and with all the child labor laws existing in the State, as well as—in the State of Florida, we require a permit from the school board for each one of the individual kids, and the consent of their parents.

It means they should be—right now, we don't have any way to check these organizations, to check that the moneys received are put really, in effect, to what they state they are going to use them for.

Now, if they want to comply and they want to use that money fairly on behalf of the kids—fine. But it has to be the kids that get priority in that endeavor. It means, not the operation of the candy sale, whatsoever, but the kid has to have priority.

Senator MONDALE. I would like your answer, Mr. Amico.

Mr. AMICO. I would like to reiterate what Mr. Green has just pointed out. However, if the organization complies with registration, with financial reporting, complete disclosure, I would not object to such a program provided that they pay these children, or youths, whatever you want to call them—the appropriate wage in competitive spirit.

For example, you have—we're talking about candy a lot today; if the costs one company—say Schrafft's or somebody, so much to sell a box of candy, and this organization is going to sell a box of candy, it should be on the same competitive basis, with regard to the 1938 Fair Labor Act and also the Fair Trade Act as of now, in addition to compensating the youths under all the laws of that State and the Federal Government as well.

I think certain steps should be taken, yes; a social security number, identification card, things of that nature—a complete rundown, managership—complete disclosure all the way down the line, and then sure, if you want to put them to work they should be paid the normal wage for doing a normal job. That is the way it was even back in the early 1930's, as youths when we worked as—in the A&P, delivering orders, and picking up and weighing potatoes and things of that nature, while we were going to school.

Senator MONDALE. I think there is a very serious problem of youth employment in this country. Young kids should have a chance to work, but under circumstances that are protected, and where the work and the compensation is for them and not for others, and under the supervision of people who are able and willing to provide good example. I think that is where this society has made a big mistake, in not giving teenagers work. There are a lot of them standing around with nothing to do; our figures show there are 3.4 million unemployed youth between the ages of 14 and 21, as projected by the Department of Labor.

They are standing around looking for something to do, and maybe what we have heard earlier today is the failure to provide decent alternatives for them, for these young people who need it so badly.

Mr. MULACK. I don't believe anyone on this panel would state that young children should not work——

Senator MONDALE. I am not sure about eight or nine years old.

Mr. MULACK. I think it is a goal of many American families that their sons get a paper route when they become the proper age, to get out and learn the value of working for a living, but again, this, is under supervision and it is not really taking the child 20 miles across town.

If there could be some form of supervision over this, with a minimal amount of profit for the promoter, which would make it a reasonable amount, but not this 70 to 83 percent that unfortunately gets into the area that we discussed——

Senator MONDALE. All of you have prepared excellent statements, and they will appear in the record. But I would also ask you to think about what the Federal Government should do or should not do in this field, and perhaps write to us, by letter for the record, containing such recommendations, and we will place that in the record.

Thank you very much for your useful testimonies.

Mr. MULACK. One final point. Might I just amend my statement at the end? There is a very substantial miswording.

The State of Illinois recommends uniform State legislation, and we inadvertently entered "national" legislation.

Thank you very much.

[The prepared statements of Mr. Mulack and Ms. Cochran follows:]

STATEMENT BY DONALD G. MULACK

CHIEF OF LITIGATION, ILLINOIS CHARITABLE SOLICITATIONS DIVISION

BEFORE THE U.S. SENATE SUBCOMMITTEE ON CHILDREN AND YOUTH

March 12, 1974

Senator Mondale, members of the Subcommittee, my name is Donald G. Mulack, Assistant Illinois Attorney General and Chief of Litigation of the Charitable Trusts and Solicitations Division.

I appear this morning in response to an invitation by this Subcommittee to discuss the results of some nine months of investigation by the Charitable Trust and Solicitation Division of the office of William J. Scott, Attorney General of the State of Illinois. The investigation centered on the activities of the so-called "Fagin operators" who hire children to peddle candy for-profit on a door-to-door basis.

It is estimated that hundreds of thousands of dollars in sales annually are exacted from Chicago land area consumers by these for-profit companies and organizations who could not remain in business unless children of tender years were allowed to be abused and exploited.

These operations began approximately two years ago in Illinois and have spread to surrounding mid-western states largely through the efforts of several promoters who saw the potential of "quick-money" at the expense of young children between the ages of 8 to 15 years old. (It has been our experience that the mean age of these children in Illinois has been between 9-11 years old.)

This promotional scheme is an off-shoot of organizations such as Girl and Boy Scouts, church and school groups who utilize such children to raise money for their charitable organizations through similar sales promotions. These children, of course, take no pay but volunteer their services to the organizations of which they are members and which usually have long-standing community respect and acceptance.

The Fagin operators, distinguishably, have moved into this market and are trading on this background of charity and good will and cause these children to peddle boxes of candy and cookies worth 30¢ to 50¢ per box at over-inflated prices of $1.50 to $1.75. The child keeps 25¢ per box sold and the balance is turned over to the company or crew manager.

At this point it should be mentioned that the crew manager is the focal point of the marketing apparatus of these organizations. He recruits, trains, supervises and transports the children salesmen to neighborhoods of his choice.

Our office has repeatedly exposed several Chicago area firms whose names are calculated to mislead the public into believing that charitable causes are involved. These names trade upon the aura of youth and are changed, altered or dropped depending upon the amount of adverse publicity received in the local media. An example of these names are as follows:

National Youth Clubs of America
United Youth of America
United Boys Group
United Youth Group
Opportunity for Youth
Employment for Youth
Student Opportunities for Self Achievement

(Note: United Boys Group filed bankruptcy in December, 1972 seeking to dissolve $195,000.00 in debts to local suppliers, innkeepers and newspapers. The name was then changed to United

Youth of America which subsequently liquidated in April, 1973 after disclosure of its operations by the Illinois Attorney General's office and the local media. Some of the principals then simply changed the name and formed a new company with another distributor named Consumer Contact, Inc. which is associated with National Youth Clubs of America.)

Our investigation has found that although the descriptive name suggests the organization is benefitting youth, none of the above organizations have established any youth clubs in the ordinary understanding of that term. On the contrary, the organizations are created to make fast money for the promoters with only incidental benefits to the children employed.

Further, most of these organizations are void of permanency, and instead, operate out of store fronts with constantly changing locations as regulatory agencies continually expose their procedures. In several such operations the headquarters were located in the trunk of an auto or motel room that could easily disappear overnight.

In a typical operation a crew manager recruits young people at candy stores near grammar schools through posters and flyers which advertise Students Wanted, earn up to $20 a week, part-time. Only a telephone number is listed. When a student calls, arrangements are made for his indoctrination and transportation with other children, in crews of five, to affluent neighborhoods in the suburbs.

A typical representation by the child is that they are working for scholarships, prizes or vacations. Our investigation of the National Youth Clubs of America, for instance, has revealed no scholarships (in the true sense) awarded while the company's promotional literature is replete with such representations. Furthermore, statements made to our office by consumers reflect that the purchase was made on the express belief that the child was to obtain some such award, or belonged to some respectable organization.

While these candy companies maintain they are for-profit, with no reference to charity, the very nature of the operation is couched in the aura of charitable giving to youth and could not be successful if the door-to-door salesmen were adults. It is this exploitation of young people that has prompted government agencies to use all statutory powers of regulation at their disposal.

One such statutory power in Illinois is the Child Labor Laws which became effective in 1935 to protect against this type of abuse.

Our labor laws, Chapter 48, Section 31.1, Illinois Revised Statutes (1971), proscribe certain types of dangerous or hazardous occupations in which children under the age of sixteen cannot be employed. Section 31.7(1) thereof, additionally defines a hazardous occupation as a delivery or messenger service. Another section of said law prevents children from being employed in or about power driven machinery. Yet another section states that those persons who permit or employ said minors to work in violation of the Act are guilty of a misdemeanor and should be punished by fine or imprisonment.

We have successfully obtained several convictions against crew managers under this law by maintaining that the transportation of children under sixteen years of age into strange neighborhoods is the operation of a 'delivery or messenger service. Likewise, transportation of these children by auto is the use of 'power driven machinery in the employment of youth and clearly proscribed activity.

While the candy companies have recently filed an action, now pending, in the Federal District Court in Illinois seeking to declare the above statute unconstitutional as appled to them, we will continue to enforce this law in the true spirit of its enactment, namely, to protect children of tender age from being exploited, harassed and abused.

Let me give a few quick examples of abuse discovered by our office.

In January of this year, four children, ages 8, 10, 11 and 12 years were taken from a lower economic neighborhood after school and transported far away by a crew manager to sell candy in below-freezing temperatures. After 2 hours of selling, the children were cold and sought to enter the auto to warm themselves but were refused by the crew manager because they had not sold enough candy. When the children attempted to enter the auto, the crew manager physically grabbed the 11 year old girl by the leg and pushed her out into the snowy, wet street. The children were then informed they were "fired" and were abandoned in a strange neighborhood without money for transportation to return home.

This incident is not atypical of the complaints received by our office. In all instances the incident is caused by the child failing to sell enough candy to satisfy the crew manager. Additionally, it is not uncommon for the children to be assessed 50¢ apiece for the crew manager's gas if the children failed to reach their quota of sales.

Several reported side-effects included children at school who became disruptive and overtired in class and often fell asleep at their desks after a night of selling on the street. These individual stories can go on and on but time will not permit.

The solution to this abuse of young children in Illinois lies in vigorous enforcement of child labor laws and the arrest of crew managers who utilize children of tender years.

Likewise, publicity to alert parents and inform the public will deter the crew manager, the main link in the marketing scheme, from exploring the neighborhoods in search of unsuspecting and impressionable young children.

Additional violations of local, state and federal laws arise from time to time because of improper accounting of monies obtained from sales, such as violations of Federal Income Tax laws, social security and withholding laws, state sales tax laws, local assumed name statutes, and so forth.

In summation, judging by the number of complaints and inquiries received by our office we are aware of the great public demand for regulation in this area. Through news stories, radio spots and prosecution under the above statutes we believe that the problems encountered in our state can ultimately be resolved. We further invite additional uniform national legislation, however, which will protect children of tender years from continued exploitation.

We thank this Subcommittee for inviting the Illinois Attorney General's Office to testify and we hope that your Committee will seriously consider meaningful legislation to correct the evils discussed.

BEST COPY AVAILABLE

Juvenile Investigation

Main St Elevated Station

2. CLASSIFICATION: Juv. [illegible]

3. BEAT: 21

NUMBER: V487

6. DATE AND TIME OCCURRED: 1-2-74 5:00 PM

7. DATE AND TIME POLICE ARRIVED: 1-2-74 5:15 PM

(NAME IF BUSINESS): [illegible] Narratives — ADDRESS — RES. PHONE — BUS. PHONE

PERSON REPORTING CRIME TO POLICE: [illegible] Attendant — ADDRESS — RES. PHONE — BUS. PHONE

PERSON WHO DISCOVERED CRIME: — ADDRESS — RES. PHONE — BUS. PHONE

SEX — RACE — AGE — ADDRESS — RES. PHONE — BUS. PHONE: N/A

OCCUPATION: Students — SEX — RACE — AGE

15. TYPE OF PREMISES WHERE OCCURRED: City Street

14. EXACT LOCATION OF VICTIM OR PROPERTY:

WEAPON OR MEANS USED:

16. METHOD USED TO COMMIT CRIME:

17. OBJECT OF ATTACK OR PROPERTY TAKEN:

VALUE OF PROPERTY $

TRADE MARK OR UNUSUAL EVENT:

VEHICLE USED BY OFFENDERS: [illegible] — MAKE: UNC — YEAR: — BODY STYLE: UNC — COLORS: Brown — LICENSE: — OTHER IDENTIFYING MARKS: UNC

EXACTLY WHAT DID OFFENDERS SAY: "You're fired get out"

PROPERTY RECOVERED: — 23. VALUE $ — 24. PROPERTY INVENTORY NUMBER:

25. PERSON IN CRIMINAL INVESTIGATION NOTIFIED - TIME: [illegible] 8 P.M.

COUNTED
VICTIM
CLEARED
INDEXED
CODED
TABULATED

NARRATIVE: [illegible] Give complete description of suspects, including name if known, [illegible] sex, race, age, height, weight, color eyes, hair, complexion, scars, marks, etc.

At 5:00 PM R/O responding to a call by Main St. Elevated Station Attendand R/O talked with four Juveniles ages 8-12 who had been brought to [illegible] by a Best Cab representing [illegible] Central Candy Co. The Children Reported a Best Cab was picked them up at their homes (all North Side [illegible]) to sell candy and after a couple of hours when they got cold they asked if they might get off the corner and sell inside. They were refused and taken to the 200 block of Main St and told that they were fired and to

CASE STATUS (CHECK ONE): UNFOUNDED ☐ CLEARED ☐ NOT CLEARED ☐

28. REPORTING OFFICER: Neal [illegible] Esler #237

29. SUPERVISOR:

FOLLOW-UP BY: TO BE FILED ☐ CRIMINAL INVESTIGATION DIVISION ☐ PATROL DIVISION ☐ TRAFFIC DIVISION ☐

31. REVIEW OFFICER:

BEST COPY AVAILABLE

FIELD SUPPLEMENTARY REPORT

Police Department

1. Original Offense [illegible] St	2. Original Classification	3. Beat 24	4. Complaint Number V 487
Offense Changed To	6. Classification Changed To	7. Commander Approving Change (Signature)	
Victim See Narrative	Address	8. Date and Time of This Report 1-8-74 5:15 PM	

10. Narrative: Record here all developments in the case subsequent to the submission of the last report. Describe and record value of any property recovered, names and street numbers of any persons arrested. If offense classification is changed explain why. Indicate clearly disposition of property recovered and show property inventory number if in police possession.

[illegible] out of the car one child Kathy Wallace refused and was grabbed by the leg and pulled from the car. All four kids left standing at [illegible] Main St.

Names of Juveniles: Darline Barker 12yrs Sandra Barker 10yrs of [illegible] [illegible] No phone # Kathy Wallace 11yrs 4455 Mauldin Phone # 812-7134
Junior Timothy 4131 N. Kenmore

Contact Custom Candy Co. Located on Irving Park in Chicago Tel. #[illegible]2813
Robert Gold (Represents Said Company)

All four youths were left without monies for transportation and not given fares to board C.T.A.

Description of Robert Gold M/W 6' Brown Curly Hair Freckles Med. Build Sub. wears Sunglasses. Car described as Small Brown/Brown 2dr [illegible] top. [illegible]

11. Status (Check One) Cleared by Arrest ☐ Not Cleared ☐ Unfounded ☐

12. Date of Final Report: 1-9-74

13. Further Police Action and Report Required (Check One) Yes ☐ No ☐

14. Reporting Officer: [illegible] #[illegible]

15. Supervisor Approving:

16. Report Reviewer:

72 L 6714

BEST COPY AVAILABLE

1) Name – [illegible] [illegible], also known as [illegible] International [illegible]

2) Chapter XI

3) Attorney for bankrupt – Sanford [illegible]
180 W. Randolph
Chicago

4) Date of outstanding order – last day for filing claims June 2, 1972

5) Trustee in bankruptcy – [illegible]
Chicago

1 L. Expense 250.00
2 [illegible] Expense 400.00 (employment compensation of [illegible])
see attached photocopies of assets & liabilities

BEST COPY AVAILABLE

OFFICIAL FORM NO. 1
ACT OF 1898 AS AMENDED AND REVISED

Modern Law Forms
No. 1008

Page 1 of

SCHEDULE A-3

CREDITORS WHOSE CLAIMS ARE UNSECURED

Name and Address of Creditors	When and where contracted*	Whether claim is contingent, unliquidated or disputed*	Nature and consideration of the debt, and whether any judgment, promissory note, etc., and whether contracted as a partner or joint contractor, with any other person, and if so, with whom	Amount due or claimed	
Airways Rent-a-Car 3939 Dempster Skokie, Illinois, 60076			For rental about July 1972.	438	9
Apex Moving and Storage 626 South 6th Street Rockford, Illinois			For services about April 28, 1972.	406	27
Bee and Bee Candy Company 1859 South 55th Street Cicero, Illinois, 60650			For merchandise purchased about August 1972.	2506	08
Ber-Mar Messenger and Truck Co. P. O. Box 574 Wheeling, Illinois			For services about August 1972.	20	90
Budget Truck Rental 742 Higgins Park Ridge, Illinois			For rental services about July 1972.	460	20
Caesars Palace 3570 Las Vegas Boulevard Las Vegas, Nevada			For services about July 1972.	139	9
Consolidated Account System 1230 Old Skokie Road Highland Park, Illinois			For services about August 1972	50	4
Crown Industrial Products Co. Hebron, Illinois, 60034			For merchandise purchased about July 1972.	474	0
Economist Newspapers 5959 South Harlem Chicago, Illinois			For services about July 1972.	17	5
Emery Air Freight P. O. Box 7 Scranton, Pennsylvania			For services about June 1972.	98	75
Excelsior Associates, Inc. 171 Madison Avenue New York, New York, 10016			For services about May 1972.	336	00
Executive Auto Leasing 5699 North Lincoln Lincolnwood, Illinois			For services to August 1972.	1820	00

The above and foregoing debts were contracted at location of creditors, and are not contingent, unliquidated or disputed unless otherwise hereinabove stated.

Balance forward: 6769 04

UNITED BOYS GROUP, INC.

by _______ Petitioner President

* When the street address of any creditor (business or residence) cannot be ascertained, it should be stated "street address unknown", followed by the city and state. If there is a claim of set-off by Debtor, list such claim in schedule B-3 following. It is preferable that the names of creditors be set up in alphabetical order.

BEST COPY AVAILABLE

Page 2 of SCHEDULE A-3 CREDITORS WHOSE CLAIMS ARE UNSECURED

Balance brought forward from page 1:		6769	04
Executive Inn 8th and Center Streets Sheboygan, Wisconsin	For services about August 1972.	169	11
Fascination Candy Company 1131 -41 North Wood Chicago, Illinois, 60622	For merchandise purchased through August 1972.	1776	00
Fox Cross Candy Company 7 Charlton Street Everett, Massachusetts, 02149	For merchandise puechased to about June 1972.	576	00
F-R Associates, Inc. 4959 West Belmont Chicago, Illinois, 60641	For merchandise purchased by petitioner about 1972.	25,572	35
Gion Business Forms 653 Walden Road Winnetka , Illinois	For merchandise purchased to July 1972.	1375	00
Glenview Card and Office Supply 1802 Glenview Road Glenview, Illinois	For merchandise to July 1972.	150	61
Glenview Paint Glass and Wallpaper 1900 Glenview Road Glenview, Illinois	For merchandise about July 1972.	22	41
Gotham Chicago Corporation 2660 North Clybourn Chicago, Illinois, 60614	For merchandise purchased by petitioner about 1972.	98	40
G. R. Leonard and Co. 2121 Shermer Northbrook, Illinois	For directories purchased by petitioner 1972.	31	50
Holiday Inn Edens at Lake-Cook Road Highland Park, Illinois	For services to July 1972.	118	95
Holiday Inn 505 North Cunningham Urbana, Illinois	For services to August 1972.	70	56
Holiday Inn 4000 Calumet Hammond, Indiana	For services to August 1972.	62	33
Holiday Inn 4665 West 16th, Indianapolis, Indiana	For services to July 1972.	196	42

The above claims were incurred at location of creditor and are not contingent, unliquidated or disputed, except as noted

Balance forward: 36,965.68

UNITED BOYS GROUP, INC.

by John Vaulis [illegible]
President

BEST COPY AVAILABLE

Page 3 of SCHEDULE A-3 CREDITORS WHOSE CLAIMS ARE UNSECURED

alance forward from page 2:		36,968	68
Holiday Inn 15 Dixieway North South Bend, Indiana	Services to July 1972.	93	52
oliday Inn I-74 & Middle Road ettendorf, Iowa	Services about July 1972.	27	35
oliday Inn 1522 Lincolnway Clinton, Iowa	Services to July 1972.	202	89
Holiday Inn 2325 Avenue N ouncil Bluffs, Iowa	Services to May 1972.	305	73
oliday Inn 111 Dodge Street ubuque, Iowa	Services July 1972.	98	82
oliday Inn 06 Church Street ttumwa, Iowa	Services to August 1972.	54	13
oliday Inn 0375 Plymouth Road etroit, Michigan	Services August 1972.	97	17
oliday Inn owntown ustin, Minnesota	Services July 1972.	13	52
oliday Inn 630 South Broadway ochester, Minnesota	Services to July 1972.	168	03
oliday Inn S 41 & I 24 anchester, Tennessee	Services to July 1972.	62	01
oliday Inn S 41 ppleton, Wisconsin, 54911	Services to July 1972.	115	65
oliday Inn of Kenosha 300 West Touhy kokie, Illinois, 60076	Services to June 1972.	64	24

he above claims incurred at location of creditor and are not contingent, unliquidated or disputed, except as noted.

Balance forward: $ 38, 272 04

UNITED BOYS GROUP, INC.

by

President

Page 4 of SCHEDULE A-3 CREDITORS WHOSE CLAIMS ARE UNSECURED

Balance forward from page 3:		38,272	04
Hospitality Motor Inn 200 Midland Building Cleveland, Ohio	Services about August 1972.	54	35
Howard Johnson's Washington at Main Laurel, Maryland	Services to May 1972.	127	34
The Post-Tribune 1065 Broadway Gary, Indiana	Services about June 1972.	12	24
Illinois Bell Telephone Company 2401 West XXXXXX Grace Chicago, Illinois, 60618	Services to August 1972.	10	58
Indianapolis News 307 North Pennsylvania Indianapolis, Indiana	Services to August 1972.	80	75
IBM, Inc. P. O. Box 16961 Chicago, Illinois	For lease of typewriter about 1972.	67	50
Isaacson and Company 6045 North Lincoln Avenue Chicago, Illinois, 60645	For insurance contracted by petitioner about 1972.	696	00
Lincoln-Belmont Booster XXX 1647 West Belmont Chicago, Illinois, 60613	For services to August 1972.	131	60
Lord Label and Manufacturing Co. 2850 West Irving Park Chicago, Illinois, 60618	For merchandise po July 1972.	65	70
Marathon Construction 1400 East Touhy Des Plaines, Illinois	Apparently have claim against petitioner	210	00
Marathon Service Station Lake and Skokie Wilmette, Illinois	Merchandis e to July 1972.	347	32
Marriott Motor Hotel 8535 West Higgins Chicago, Illinois, 60631	Services to July 1972.	305	62
Master-Brew Coffee Service 5520 North Lincoln Chicago, Illinois, 60625	Services to August 1972.	30	01
	Balance forward:	$ 40,411	05

Above claims incurred at location of creditor and are not CONtingent, unliquidated or disp uted, except as noted.

UNITED BOYS GROUP, INC.

by
President

Page 5 of SCHEDULE A-3 CREDITORS WHOSE CLAIMS ARE UNSECURED

Balance brought forward		40,411	05
Military Veterans Courier 327 South La Salle Street Chicago, Illinois, 60604	For services to May 1972.	105	00
Murphy XXXX Transfer and Storage 502 Cedar Rockford, Illinois	For services about July 1972	678	44
Murfreesboro Profession and Business Exchange 113 West Lytle Murfreesboro, Tennessee	For services about July 1972.	10	00
Omaha World Herald 14th and Dodge Omaha, Nebraska	For services about May 1972.	7	85
Ottumwa Courier Ottumwa, Iowa	For services about July 1972.	4	2
Pauls Northfield 1756 Willow Road Northfield, Illinois	For services to petitioner 1972.	247	5
Peet Frate Lines, Inc. P. O. Box 529 Woodstock, Illinois	For services about July 1972.	184	0
C. Phillips Flowers 515 North La Grange x La Grange, Illinois	For merchandise about July 1972	31	0
Pitney Bowes Corporation Walnut and Pacific Stamford, Connecticut, 06904	For rental of postage meter	48	7
Plantation Motor Inn 2956 Milwaukee Beloit, Wisconsin, 53511	For services to petitioner about May 1972.	108	0
Ramada Inn 504 Hamilton Peoria, Illinois, 60602	For services about July 1972.	28	7
Ramada Inn 105 Walnut Neenah, Wisconsin, 54956	For services about July 1972.	23	7
Regal 8 Inn P.O. Box 1268 Mt. Vernon, Illinois, 62864	For services to July 1972	28	5
	Balance forward : $	41,750	8

Above claims incurred at location of creditor and are not contingent, unliquidated or disputed, except as noted

UNITED BOYS GROUP, INC.

BY John Vander Lee
President

Page 6 of SCHEDULE A-3 CREDITORS WHOSE CLAIMS ARE UNSECURED

Balance forward:		41,750	86
Safety Rent-a-Car 6517 North Lincoln Lincolnwood, Illinois	For services to July 1972.	77	06
The Satellite 411 Lakewood Circle Colorado Springs, Colorado	For services to petitioner 1972	21	18
Schiek Motor Express 90 Casseday Joliet, Illinois, 60432	For services to July 1972.	39	99
Sheraton Motor Inn 214 Ottawa Joliet, Illinois, 60431	For services to June 1972.	125	71
Star Gazette Mill Avenue Dyersburg, Tennessee	For services to May 1972.	15	00
V. I. P. Leasing 666 East Northwest Highway Arlington Heights, Illinois	For leasing contract xxxx contracted	2700	00
E. G. Whitman and Co., Inc. 2216 East Allegheny Philadelphia, Pennsylvania	For merchandise purchased by petitioner 1972.	1657	00
Wisconsin Telephone Company 800 West Lincoln Oshkosh, Wisconsin, 54901	For services about July 1972.	12	32
Wisconsin Department of Licensing 110 North Henry Madison, Wisconsin, 53703	For permits and licenses incurred 1972.	430	00
Chalet Office Plaza 1000 Skokie, Boulevard Wilmette, Illinois	For balance on office lease	1643	00

The above claims were incurred at location of creditor and are not continent, unliquidated or disputed, except as noted

Balance forward: $ 48,472 12

UNITED BOYS GROUP, INC.

by John
President

BEST COPY AVAILABLE

Page 7 of SCHEDULE A-3 CREDITORSWHOSE CLAIMS ARE UNSECURED

Balance forward from page 6		48,472	12

The following creditors may have claims by reason of guarantees of the petitioner, incurred in Wilmette, Illinois

Don Bechard	2284 Knollaire Dr., Washington, Ill, 61571	3990	00
Robert Bevington	6268 Raintree Lane, Indianapolis, Ind 46236	8000	00
~~Robert Burlile~~	~~Columbus, Ohio~~	~~3990~~	~~00~~
Dennis Burosh	7312 Parrish, Hammond, Indiana, 46323	3990	00
Dale Camp	1223 N. Broadway, Council Bluffs, Iowa, 51501	3990	0
Harold Chapman	401 Dye Road, Kokomo, Indiana, 46901	3000	0
Arthur Crow	5215 58th Avenue, Kenosha, Wisconsin, 53140	3990	0
Clifford Davis	228-8 Arnold Dr., West Lafayette, Inc, 47900	3990	0
Tom Easton	105 Pratt Lane, Plainfield, Ill., 60544	3990	0
Alan Fefer	7517 N. Seneca Road, Milwaukke, Wisconsin	3990	0
William Freiburger	504- 2nd Avenmue, NW, Cascade, Iowa, 52033	3990	0
Robert Funk	2220 Tanglewood, Aurora, Illinois, 60500	3990	0
Paul Ganiere	7729 Beloit, West Allis, Wisconsin	3990	0
M. Giffor (Patmar)	20073 Wallace, Roseville, Michigan, 48066	3990	0
L. Gold	6222 North Pulaski Road, Chicago, Ill, 60646	3990	0
Jack Goodwin	1335 North Van Buren, Ottumwa, Iowa, 52501	3990	0
Walter Grosshein	927 A Wisconsin, Sheboygan, Wisconsin, 53081	3990	0
~~Paul Guerno~~	~~Sandusky, Ohio~~	~~3990~~	~~0~~
Robert Haen	66 Main Avenue, Clinton, Iowa, 52732	3990	0
Robert Harris	3018 Grove St., Davenport, Iowa, 52800	3990	0
Steven C. Hill	311 Layne St., Tullahoma, Tennessee	3990	00
Otto Hoffman	1824 East Amelia, Appleton, Wisconsin	3990	0
Lloyd Joachin	504-7th St. NW, Rochester, Minnesota	8000	0
~~Jack P. Kollman~~	~~Joliet, Illinois~~	~~3990~~	~~0~~
Willis Kreider	RR #6, Warsaw, Indiana	5190	0
Alan Lever	311 Park Avenue, Beloit, Wisconsin, 53511	3990	0
Fred Mathews	5120 Martinique Road, Ft. Wayne, Ind., 46800	3990	0
William Moess	1708 N. Wilcox, Joliet, Ill, 60400	3990	0
Angelo Panackia	25120 West 8 Mile Road, Southfield, Mich.	4990	0
Daniel Peterson	426 Lark Avenue, St. Paul, Minnesota	1000	0
Lawrence Place	2109 Lantern Hill Drive, Urbana, Ill 61801	3990	0
~~William Reed~~	~~Springville, Iowa~~	~~3990~~	
Robert Slade	3016 Sweetbriar Ave, Iowa City, Iowa 52240	3990	
Earl Sommers	429 Judge Avenue, Waukegan Illinois	3990	
William Vander Horst	1339 E. Euclid, Des Moines, Iowa, 50316	3990	
Leland Wallace	1138 Terrace Lane, Glenview, Ill., 60025	3990	
David Watkins	649 East 47th Ave., Gary, Indiana, 46400	3990	
Ray Watton	1115 Colton Bloomington, Illinois, 61701	3990	
Charles Whitfill	1820 S. Fairview, Decatur, Ill., 62570	3990	
Marvin Wunderlick	657 South St., Elgin, Illinois, 60120	3990	

198,352 1

TOTAL: $

UNITED BOYS GROUP, INC.

by

President

OFFICIAL FORM NO. 1
OF 1938 AS AMENDED AND REVISED

Modern Law Forms
No. 1008

SCHEDULE B-3
CHOSES IN ACTION

A. Debts due petitioner on open account			
Petitioner had in Glenview State Bank funds of $3500 which have been taken during the past four months by garnishment from Executive Auto Leasing and Chalet Office Plaza -		3500	00
Morrie Friedman, 1000 Skokie Boulevard, Wilmette- took funds from company for personal use- estimated $50,000		50,000	00
Ray Watton-1115 Colton, Bloomington, Illinois, 61701	supplies	2542	38
Robert Bevington-6268 Raintree Lane, Indianapolis, Ind.	supplies	1303	04
Walter Grossheim- 927A Wisconsin Ave., Sheboygan, Wisc.	supplies	850	68
Don Menotti - 1105 E. Fairview- Arlington Heights, Ill.	supplies	243	39
Robert Harris - 3018 Grove Street-Davenport, Iowa, 52800	supplies	428	91
~~B. Policies of insurance~~			
M. Giffor (Patmar Enterprises) 20073 Wallace, Roseville, Michigan, 48066	supplies	672	80
Donald Bechard - 2284 Knollaire Drive, Washington, Ill.	supplies	93	27
B. Policies of insurance		None	
C. Unliquidated claims of every nature with their estimated value		None	
D. Deposits of money in banking institutions and elsewhere		None	

Where wages or salary earned by petitioner is being held by his employer, the claim should be set forth under "A" above.

With respect to policies of life insurance, the following information should be given: date issued, policy number, company, type insurance, face amount, beneficiary, loans and surrender value, if any.

Total $ 59,634 47

UNITED BOYS GROUP, INC.
by
Petitioner President

Y1 3-15-74 Que

THE PURPOSE OF THE NATIONAL YOUTH CLUBS OF AMERICA INC.

The National Youth Clubs of America has two aims. We are primarily concerned with giving employment to young people through a program in which they sell various products on a door-to-door basis. Not only are there monetary advantages including nightly and monthly bonuses, but our young people also become acquainted with the people of the community and, in the process, have the opportunity to develop their character through public contact.

There is also an annual scholarship award divided among the top salesmen of the year. This scholarship is used to further their education in their chosen field.

Our second aim is to provide a product worthy of your patronage. When you help one of our youth as he competes for a scholarship award you will avail yourself of a fine product at the same time.

Sincerely,
Judith Fletcher
Judith Fletcher
President

BEST COPY AVAILABLE

NATIONAL YOUTH CLUBS OF AMERICA AND YOUR COMMUNITY

HELP A YOUTH TO HELP HIMSELF

NATIONAL
YOUTH
CLUBS
OF
AMERICA

We are pleased to take this opportunity to introduce ourselves to your community:

THE COMPANY:

National Youth Clubs of America

ADDRESS:

(National Headquarters)
1000 Skokie Boulevard
Wilmette, Illinois 60091

TELEPHONE:

(312) 256-5360 - - (800) 323-3745

BANK:

Edens Plaza State Bank, Wilmette, Ill.

OFFICER:

President — J. K. Fletcher

CHARTER MEMBERSHIPS:

Chamber of Commerce

MODUS OPERENDI:

Local Chartered Chaptered Members

MERCHANDISE:

Consumables (Candies, Cookies, etc.)

COST:

$1.00 — $2.00 per item.

SALES PROGRAM:

National Youth Clubs of America is a limited profit corporation. It serves a vital and necessary function in the community by providing jobs for youths between the ages of 14 and 17 years.

Traditionally, communities have been guilty of ignoring this age group in their attempts to provide employment for adults over the age of 18 years. Perhaps this may explain why juvenile crime rates have nearly tripled within the last 2 years. As John Drummond once stated, "A buck in a kid's pocket will go a long way towards his self-respect." National Youth Clubs of America seeks to fill this employment gap by providing jobs for these "unemployable" people selling its products on a door-to-door basis. The youths work in crews of five. Each crew is closely supervised by a capable Crew Manager, in many cases, a veteran.

In addition to earned income, the youths compete in a college scholarship program, the scholarships being awarded to the top salesmen of each state.

There is also the intangible asset of character development and training, which we feel direct sales contribute to.

It is the National Youth Clubs of America philosophy that our program is an important and necessary aid in maintaining harmony in the community by employing youths in a constructive, meaningful, and self-promoting light.

(215) 277-3000

E.G. WHITMAN & CO.
"Candy For Fund Raising"
Fourth & Coates Streets
P. O. Box 128, Bridgeport, Pa. 19405

April 11, 1973

Mr. M. Friedman
National Youth Clubs of America
1000 Skokie Blvd.
Wilmette, Illinois 60091

Dear Mr. Friedman:

I just had to write you and thank you for the wonderful job you have been doing. I must admit that when we first started doing business, I took a very skeptical attitude toward your anticipated sales and quite frankly, felt that they were much over-inflated.

My original thinking was in error and we were pleasantly surprised to find that your volume with us has exceeded your forecast.

Congratulations on a job well done.

Very truly yours,
E. G. WHITMAN & CO.

Marvin E Segal

Marvin E. Segal,
President

MES:eh

BEST COPY AVAILABLE

FORM 6 CC-CH-D — INJUNCTION WRIT

IN THE NAME OF THE PEOPLE OF THE STATE OF ILLINOIS
IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY-DIVORCE DIVISION

PEOPLE OF THE STATE OF ILLINOIS
ex rel. WILLIAM J. SCOTT, Attorney
General of the State of Illinois,

Plaintiff

vs.

FRESHNESS INDUSTRIES, INC., FAMILY CARE PRODUCTS, INC., FRESHNESS DISCOUNT CARPET, INC., STYX & STONES, INC., Illinois corporations; MORRIE S. FRIEDMAN, Individually, LARRY BALLARD, Individually and ORRIS BALLARD, Individually

Defendant

Please serve:
Orris Ballard
2117 Croydon Rd.
Rockford, IL 61107

NO. 71 CH 5371

Morrie S. Friedman
National Youth Clubs of America
1000 Skokie Blvd.
Wilmette, IL 60091

and to your Attorneys, Agents and Servants, and to each and every of them, GREETING

WHEREAS, It has been represented to the Honorable Judge Donald J. O'Brien one of the Judges of the Circuit Court of Cook County, in the State of Illinois, on the part of PEOPLE OF THE STATE OF ILLINOIS ex rel. WILLIAM J. SCOTT, Attorney General of the State of Illinois

Plaintiff in the Complaint exhibited before said Judge, and filed in said Court that the said above named defendant(s) FRESHNESS INDUSTRIES, INC., FAMILY CARE PRODUCTS, INC., FRESHNESS DISCOUNT CARPET, INC., STYX & STONES, INC., Illinois corporations; MORRIE S. FRIEDMAN, Individually, and ORRIS BALLARD, Individually

among other things, that you are combining and confederating with others to injure the plaintiff, touching the matters set forth in said Complaint, and that your acts and doings in the premises are contrary to equity and good conscience. And the said Judge, having entered an order that a Writ of Injunction issue out of said Court, according to the prayer of said Complaint: We therefore, in consideration thereof, and of the particular matters in said Complaint set forth. DO STRICTLY COMMAND YOU, the above named defendant(s, FRESHNESS INDUSTRIES, INC., FAMILY CARE PRODUCTS, INC., FRESHNESS DISCOUNT CARPET INC., STYX & STONES, INC., Illinois corporations, MORRIE S. FRIEDMAN, Individually, and ORRIS BALLARD, Individually

and the persons before mentioned, and each of you, that you shall DESIST AND REFRAIN from the acts enumerated in the ORDER issued by Judge Donald J. O'Brien on October 4, 1972, to wit.

IT IS HEREBY ORDERED:

1. That the Order entered by this Court in the above entitled

case on August 8, 1972 is hereby vacated, and that the Writ of Injunction issued pursuant to said Order is hereby dissolved.

2. That a Permanent Injunction be issued without bond permanently restraining and enjoining Defendants, FRESHNESS INDUSTRIES, INC., FAMILY CARE PRODUCTS, INC., FRESHNESS DISCOUNT GROUP, INC., STYX & STONES, INC., Illinois Corporations, [illegible] S. FRIEDMAN, Individually and ORRIS BALLARD, Individually, and their respective officers, agents, servants, representatives, assigns and persons in any manner connected with the Defendants from the following acts and practices:

A. Doing business in the State of Illinois as a seller of distributorships.

B. Organizing, reorganizing, incorporating or establishing any non-incorporated association or partnership under any other name or legal structure for the purpose of the sale of distributorships of health products in the State of Illinois.

C. Soliciting distributorships by printed advertisement or personal representatives, agents or servants within the State of Illinois.

3. That all books, records, documents, and papers concerning the solicitation and sale of distributorships or other related material between the Defendants and residents of this State are hereby impounded by this Court.

4. That as used herein the word "distributorship(s)" shall mean a contractual relationship between any defendant and any person, firm, corporation or other business entity whereby such person, firm, corporation or other business entity purchases for valuable consideration from any defendant any goods or merchandise which in turn are sold pro se, or through agents, independent agents, contractors, subcontractors, or distributors, to the public; or the purchase by any person, firm, corporation or other business entity from any defendant of an exclusive or non-exclusive right to sell any goods or merchandise in any geographical area within the State of Illinois.

5. That William Randall is hereby appointed Receiver of the assets of the Defendants and shall have the power to sue for, collect, receive and take into his possession all the goods and chattels, rights and credits, monies and effects, lands and tenements, books, records, documents, papers, choses in action, bills, notes, and property of every description, derived by any practices declared to be illegal or prohibited by Chapter 121 1/2, [illegible]

property with which such property has been mingled if it cannot be identified in kind because of such commingling and to sell, convey, and assign the same and hold and dispose of the proceeds thereof under the direction of this Court.

6. That any person who has suffered damages as a result of the use of employment of any unlawful practice and who shall submit proof to the satisfaction of this Court that he has, in fact, been damaged, be allowed to participate in the distribution of the assets to the extent he has suffered out-of-pocket losses.

7. That any licenses, permits, or certificates issued pursuant to law to Defendants which are used to further the unlawful practices complained of are hereby revoked.

8. That all contracts, promissory notes or other instruments which Defendants may have in their possession as a result of sales of merchandise or other related material to Illinois residents, as set out in Plaintiff's Complaint, are null and void.

9. That Defendants pay to the Attorney General of the State of Illinois all costs incurred by the Attorney General in the investigation and prosecution of this cause of action.

10. That Defendants pay all costs incurred in the execution of this judgment.

11. That bond is hereby waived.

12. The bond of the Receiver is expressly waived.

until this Court shall otherwise order. VIOLATION OF THIS WRIT WILL SUBJECT YOU TO THE PENALTY OF THE LAW.

WITNESS, MATTHEW J. DANAHER, Clerk of the Circuit Court and the Seal of said Court at Chicago, this OCT 6 1972 19

MATTHEW J. DANAHER Clerk

SEAL OF COURT

Name WILLIAM J. SCOTT, ATTORNEY GENERAL
(PETER J. KILCHENMANN, ASSISTANT ATTORNEY GENERAL)
Attorney for Plaintiff
Address 134 North La Salle Street
City Chicago, Illinois 60602
Telephone 793-[illegible]

TESTIMONY OF

CAROL COCHRAN
DIRECTOR, COMMISSION ON CHARITABLE ORGANIZATIONS
COMMONWEALTH OF PENNSYLVANIA

BEFORE
U.S. SENATE SUBCOMMITTEE ON CHILDREN AND YOUTH
WASHINGTON, D.C.

MARCH 12, 1974

I AM CAROL COCHRAN, DIRECTOR OF THE COMMISSION ON CHARITABLE ORGANIZATIONS FOR THE COMMONWEALTH OF PENNSYLVANIA.

OUR OFFICE IS RESPONSIBLE FOR ENFORCING PENNSYLVANIA'S SOLICITATION OF CHARITABLE FUNDS ACT, WHICH REQUIRES THE REGISTRATION AND REGULATION OF EVERY CHARITABLE ORGANIZATION SOLICITING IN THE COMMONWEALTH AND OF EVERY PERSON WHO RECEIVES COMPENSATION FOR RAISING FUNDS FOR SUCH A GROUP.

THIS STATUTE DEFINES A CHARITABLE ORGANIZATION AS BEING ANY PERSON OR GROUP WHICH EITHER IS OR HOLDS ITSELF OUT TO BE A "BENEVOLENT, EDUCATIONAL, PHILANTHROPIC, HUMANE, PATRIOTIC, RELIGIOUS OR ELEEMOSYNARY ORGANIZATION". AND IT PROHIBITS ANY PERSON OR GROUP WHICH IS NOT A CHARITABLE ORGANIZATION FROM MISREPRESENTING ITSELF AND/OR ITS SOLICITATION TO THE PUBLIC.

WITH THAT IN MIND, I WANT TO DISCUSS WITH YOU TWO VERY ENTERPRISING ORGANIZATIONS WE'VE HAD TO DEAL WITH IN PENNSYLVANIA: "NATIONAL YOUTH CLUBS OF AMERICA", WHICH CLAIMS TO BE A PROFIT-MAKING CORPORATION, AND "NATIONAL COUNCIL FOR YOUTH ENDEAVOR", WHICH CLAIMS TO BE A CHARITY.

WE FIRST HEARD OF NATIONAL YOUTH CLUBS OF AMERICA IN MID-APRIL OF 1973, WHEN WE RECEIVED A NUMBER OF COMPLAINTS FROM RESIDENTS OF THE HARRISBURG AREA CONCERNING THE GROUP.

ONE SUCH COMPLAINT, WHICH CAME FROM THE AMERICAN CANCER SOCIETY, WAS THAT YOUNG BOYS REPRESENTING NCYA WERE SELLING COOKIES AND CANDIES DOOR-TO-DOOR WITH THE CLAIM THAT PROCEEDS WOULD GO TO THE CANCER SOCIETY. HOWEVER, THE AMERICAN CANCER SOCIETY HAD NOT AUTHORIZED THE SOLICITATION NOR WAS IT RECEIVING ANY OF THE PROCEEDS.

IN OUR INVESTIGATION, WE LEARNED THAT NATIONAL YOUTH CLUBS OF AMERICA WAS AN ILLINOIS-BASED FIRM WHICH DESCRIBED ITSELF AS A "LIMITED PROFIT ORGANIZATION". IT WAS INCORPORATED IN ILLINOIS IN THE FALL OF 1971 AS "HOME INTERIOR DESIGN, INC.". JUST ONE YEAR LATER IT CHANGED ITS NAME TO "NATIONAL YOUTH CLUBS OF AMERICA" AND AMENDED ITS PURPOSE TO INCLUDE "SALES OF ITEMS OF ALL TYPES AND NATURE FOR PERSONAL CONSUMPTION".

WE WERE ALSO ABLE TO IDENTIFY THE FIRM'S PENNSYLVANIA AGENT, VINCENT SPADAFORE, AND TO INTERROGATE HIM.

MR. SPADAFORE INFORMED US THAT HE LEARNED ABOUT NYCA THROUGH A NEWSPAPER ADVERTISEMENT, CONTACTED THE COMPANY AND SUBSEQUENTLY BECAME THEIR PENNSYLVANIA DISTRIBUTOR. IN THE WRITTEN DISTRIBUTORSHIP CONTRACT HE SIGNED WITH THEM, MR. SPADAFORE AGREED TO PAY A $5,000.00 SURETY DEPOSIT AGAINST THE PRODUCT ORDER AND ALSO AGREED TO ORDER $20,000.00 WORTH OF PRODUCTS WITHIN A FIVE-YEAR PERIOD FROM THE E.G. WHITMAN COMPANY, A COOKIE AND CANDY MANUFACTURER IN THE PHILADELPHIA AREA. HE WAS TOLD TO PLACE ALL OF HIS ORDERS THROUGH THE COMPANY'S MAIN OFFICE IN ILLINOIS--WHICH, IN TURN--WOULD MAKE THE CONTACT WITH THE WHITMAN COMPANY.

ACCORDING TO MR. SPADAFORE, HE WAS INSTRUCTED TO ADVERTISE IN LOCAL PAPERS FOR YOUNGSTERS TO ACT AS SALEMEN AND FOR YOUNG MEN TO SERVE AS CREW MANAGERS. MR. SPADAFORE WAS TO TRAIN THE CREW MANAGERS AND THEY IN TURN WERE TO TRAIN THE SALESMEN.

HE VIGOROUSLY DENIED THAT THE SALESMEN WERE INSTRUCTED TO MENTION ANYTHING ABOUT THE CANCER SOCIETY IN THEIR PITCH. RATHER, THAT THEY WERE TO SAY THEY REPRESENTED NYCA AND TO DISTRIBUTE THE COMPANY'S LITERATURE.

THE LITERATURE, INCIDENTALLY, IS RATHER FASCINATING. IT SPEAKS MOVINGLY OF THE NEED TO MOTIVATE YOUTHS WHO FIND THEMSELVES BETWEEN THE AGES OF 14 AND 17 AND ARE THEREFORE, "UNEMPLOYABLE". IT SPEAKS GLOWINGLY OF A COLLEGE SCHOLARSHIP PROGRAM. AND IT HOLDS OUT THE PROSPECT THAT BY MERELY PURCHASING A SIX-OUNCE BOX OF COOKIES FOR ONLY $2.00, ONE WILL BE BUILDING A BOY'S GOOD CHARACTER, COMBATING JUVENILE DELINQUENCY, HELPING VETERANS AND BRINGING DOWN UNEMPLOYMENT!!

FROM OUR INVESTIGATION WE FOUND THAT NATIONAL YOUTH CLUBS OF AMERICA WAS NOT ONLY IN VIOLATION OF THE SOLICITATION OF CHARITABLE FUNDS ACT, BUT OF OTHER PENNSYLVANIA STATUTES AS WELL. THOUGH THE FIRM WAS DOING BUSINESS IN THE COMMONWEALTH, IT HAD NEVER RECEIVED A CERTIFICATE OF AUTHORITY TO DO SO. THOUGH IT CLAIMED TO SEEK YOUTHS BETWEEN THE AGES OF 14 AND 17 FOR EMPLOYMENT, SOME OF THE BOYS INVOLVED WERE 10, 11 AND 12 YEARS OLD. THIS WAS A VIOLATION OF OUR CHILD LABOR LAW WHICH PROHIBITS ANY MINOR UNDER THE AGE OF 14 TO BE SO EMPLOYED. AND, THERE WERE A NUMBER OF MATTERS CONCERNING VIOLATIONS OF PENNSYLVANIA TAX LAWS.

OUR PROBLEMS WITH NYCA NOW SEEM TO BE OVER. THE COMPANY IS NO LONGER DOING BUSINESS IN PENNSYLVANIA, AND MR. SPADAFORE HAS DISPOSED OF HIS INVENTORY AND IS ATTEMPTING TO GET OUT OF HIS CONTRACT.

THE OTHER ORGANIZATION I NAMED EARLIER, NATIONAL COUNCIL FOR YOUTH ENDEAVOR, IS A ROSE OF A SLIGHTLY DIFFERENT COLOR-- BUT THE SMELL IS MUCH THE SAME.

NATIONAL COUNCIL FOR YOUTH ENDEAVOR IS REGISTERED AS A CHARITABLE ORGANIZATION UNDER OUR SOLICITATIONS STATUTE. ITS STATED PURPOSE IS TO HELP MENTALLY RETARDED YOUNGSTERS GAIN MEANINGFUL EMPLOYMENT THROUGH THE SALE OF COOKIES AND CANDY TO THE PUBLIC.

A FEW MONTHS AGO, OUR OFFICE BEGAN TO RECEIVE COMPLAINTS ABOUT THE ORGANIZATION FROM OUTRAGED PARENTS AND DISGRUNTLED PROFESSIONALS WHO WORK WITH THE MENTALLY RETARDED. THE CHARGES RANGED FROM MISREPRESENTATION TO MISUSE OF FUNDS. SO, WE OPENED AN INVESTIGATION.

TO UNDERSTAND NCYE, YOU MUST FIRST BE FAMILIAR WITH A PROFIT-MAKING ORGANIZATION KNOWN AS "EXPEDITE, INC.". BOTH NATIONAL COUNCIL FOR YOUTH ENDEAVOR AND EXPEDITE, INC. ARE CREATURES OF THE IMAGINATIVE THINKING OF A CLEVELAND RESIDENT, LOWELL ROSENJACK; AND BECAUSE THE TWO ORGANIZATIONS ARE SO COMPLETELY INTERTWINED THE ISSUES ARE AS WELL.

MR. ROSENJACK FORMED EXPEDITE, INC. HE SAYS, "MANY YEARS

AGO." IN 1970 HE HAD THE COMPANY INCORPORATED UNDER THE LAWS OF OHIO AS A PROFIT-MAKING CORPORATION. EXPEDITE, INC., THEN BEGAN TO CONDUCT PROMOTIONAL DRIVES FOR CHARITY; THROUGH THIS, IT GOT INTO THE CANDY BROKERAGE BUSINESS --USING A GOOD CAUSE OR CHARITY AS LEVERAGE FOR CANDY SALES.

IN THE LATTER PART OF 1971, ROSENJACK FORMED A NON-PROFIT CORPORATION IN OHIO CALLED NATIONAL COUNCIL FOR YOUTH ENDEAVOR. ITS GOAL WAS TO ESTABLISH, OPERATE AND MAINTAIN MINI-WORKSHOPS FOR THE RETARDED AND TO AID IN COMBATING JUVENILE DELINQUENCY THROUGH THE DISTRIBUTION OF WORKSHOP PRODUCTS BY "VOLUNTARY" JUNIOR AND SENIOR HIGH SCHOOL STUDENTS. (LET ME NOTE HERE, THAT THE "WORKSHOP PRODUCTS" TURNED OUT TO BE COMMERCIALLY MANUFACTURED AND PACKAGED CANDY--USUALLY FROM KRAFT--AND THE SO-CALLED "VOLUNTEERS" WERE PAID 25 CENTS PER UNIT OF CANDY SOLD.)

NCYE CARRIED OUT OPERATIONS IN OHIO, MICHAGAN AND FLORIDA BEFORE COMING INTO PENNSYLVANIA. THE PENNSYLVANIA OPERATIONS WERE LOCATED IN PITTSBURGH AND PHILADELPHIA.

ROSENJACK'S PROCEDURE WAS TO GO INTO A COMMUNITY AND RENT A ROOM. A MINIMUM AMOUNT OF FURNITURE--PERHAPS A FEW TABLES AND CHAIRS--WOULD BE BROUGHT IN. ADS WOULD THEN BE PLACED IN THE LOCAL PAPERS DESCRIBING THE ROOM AS A "MINI-WORKSHOP" AND SOLICITING FOR RETARDED YOUNGSTERS TO WORK THERE.

PERIODICALLY SHIPMENTS OF PRE-PACKAGED CANDY WOULD BE DELIVERED TO THE ESTABLISHMENT. THE RETARDED CHILDREN WERE THEN SUPPOSED--AFTER PROPER INSTRUCTION--TO AFFIX A LABEL

TO EACH BOX. THE LABELS EMPLOYED THE NAME OF THE ORGANIZATION, NATIONAL COUNCIL FOR YOUTH ENDEAVOR, AND MADE SOME MENTION OF THE PRODUCT BEING "PACKAGED BY THE HANDICAPPED".

THE CANDY WAS THEN SOLD DOOR-TO-DOOR FOR $1.00 to $1.50 PER BOX, DEPENDING UPON THE ITEM. THE ACTUAL COST OF THE CANDY VARIED FROM 35 TO 38 CENTS PER UNIT. THE STUDENT VOLUNTEERS RECEIVED, AS I'VE SAID, 25 CENTS PER UNIT SOLD. THEIR DRIVERS RECEIVED 15 CENTS PER UNIT OF CANDY SOLD, PLUS 10 CENTS PER MILE DRIVEN. THE RETARDED CHILDREN--WHEN THEY WERE PAID--WERETO RECEIVE COMPENSATION BASED UPON THEIR ABILITY TO PERFORM THE TASKS ASSIGNED THEM.

IN OUR INVESTIGATION, WE FOUND THAT THE FUNDS OF EXPEDITE, INC. AND NCYE WERE COMMINGLED IN ONE BANK ACCOUNT--OPENED IN THE NAME OF NATIONAL COUNCIL FOR YOUTH ENDEAVOR. FROM THE MONEY IN THE NYCE ACCOUNT EXPEDITE WOULD REIMBURSE ITSELF APPARENTLY ON WHATEVER BASIS ROSENJACK DETERMINED.

FOR EXAMPLE, EXPEDITE, INC. WOULD PURCHASE CANDY IN THE NAME OF NCYE. CHECKS WOULD BE DRAWN TO REIMBURSE EXPEDITE FOR THE COST OF THE CANDY WITHOUT ANY ACCOUNTING FROM EXPEDITE TO NCYE AS TO WHAT THE CANDY COST. THEN, PROCEEDS FROM THE SALE OF THE CANDY WOULD SHOW UP ON EXPEDITE'S BOOKS AS A RECEIVABLE. IN FACT, MOST OF THE MONEY IN THE NCYE ACCOUNT WAS CARRIED AS A RECEIVABLE BY EXPEDITE, INC.

BECAUSE OF THE SIAMESE-TWINS-LIKE NATURE OF THESE TWO ORGANIZATIONS, IT IS DIFFICULT TO SAY JUST WHICH WAS RESPONSIBLE FOR WHAT. THE CONFUSED METHOD OF ACCOUNTING MADE IT IMPOSSIBLE.

FOR US TO DETERMINE THE ACTUAL VOLUME OF SALES WE DO KNOW, THAT THE PROJECTED BUDGET FOR THE PENNSYLVANIA OPERATIONS WAS $2500.00 PER WEEK.

AND CONSIDERING THE HAPHAZARD AND SPORADIC TRAINING PROVIDED FOR THE RETARDED CHILDREN EMPLOYED IN THE WORKSHOPS, IT SEEMS REASONABLE TO ME TO SAY THAT THE PRINCIPAL FUNCTION OF BOTH ORGANIZATIONS WAS TO SELL CANDY.

IN FACT, IN THE REVOCATION OF ITS LICENSE, WE CHARGE NCYE WITH JUST THAT: WITH OPERATING PRIMARILY FOR PROFIT UNDER THE GUISE OF A CHARITABLE ORGANIZATION--AND THEREBY CREATING A FRAUD UPON THE PUBLIC.

INCIDENTALLY, MR. ROSENJACK'S LATEST IDEA IS SOMETHING CALLED, "PROJECT HOME BOUND"--IN WHICH HE WOULD ENDEAVOR TO HELP THE HANDICAPPED AT HOME, BY PROVIDING VISITING MONITORS--HIGH SCHOOL STUDENTS--WHO WOULD DELIVER MATERIALS, NO DOUBT MORE LABELS--TO THE INDIVIDUALS AT THEIR HOMES, AND TRAIN THEM, THE RETARDED, IN ARTS AND CRAFTS--THE ARTS AND CRAFTS CONSISTING OF APPLYING CERTAIN INFORMATION TO PRE-PACKAGED CANDY--THE CANDY, OF COURSE WOULD THEN BE SOLD DOOR-TO-DOOR TO FINANCE THIS MARVELOUS PROGRAM, IN WHICH NEITHER THE STUDENT MONITORS NOR THEIR SUBJECTS WOULD RECEIVE COMPENSATION.

I SAY THIS NOT ONLY WITH HEAVY SARCASM BUT WITH THINLY CONTROLLED HOSTILITY AS WELL. BECAUSE MR. ROSENJACK IS NOT UNIQUE. AND THESE CASES THAT I'VE RELATED TO YOU TODAY ARE UNFORTUNATELY--BUT TWO OF ALL TOO MANY, AS YOU VERY WELL KNOW.

PENNSYLVANIA IS LUCKY. NOT ONLY DO WE HAVE A STATUTE THAT ENABLES US TO DO SOMETHING ABOUT ABUSES SUCH AS THESE, BUT WE ALSO HAVE MILTON SHAPP AND DELORES TUCKER, WHO DEMAND THAT IT BE DONE.

SO MY HOPE IS THAT THROUGH THE INFORMATION GATHERED IN HEARINGS LIKE THESE THE PUBLIC WILL BE MADE AWARE OF THE MAGNITUDE OF THE PROBLEM, AND WILL BE MOTIVATED TO SUPPORT--IN FACT, DEMAND--STRONG LEGISLATION FOR THE REGULATION OF CHARITIES ON A NATIONWIDE BASIS.

I'M SURE, TOO, THAT THIS COMMITTEE HAS RECEIVED SOME FLAK FOR ITS EFFORTS. THAT, WHEN YOU START LOOKING INTO CERTAIN CHARITABLE ACTIVITIES AND CERTAIN CHARITIES YOU COME CLOSE TO TAMPERING WITH GOD AND MOTHERHOOD.

SO, I APPLAUD YOU FOR WHAT YOU'RE DOING AND WOULD LIKE LEAVE YOU WITH ONE SMALL ADAGE:

> IT SEEMS THAT A FIRE BROKE OUT IN A CRAMPED ATTIC. THE FIREMEN WHO RUSED TO THE RESCUE FOUND A LARGE MAN THERE, ON THE FLOOR, HEAVILY ASLEEP. THEY TRIED TO PICK HIM UP, BUT HE WAS TOO HEAVY. THEY TRIED TO ROLL HIM OUT, BUT THE DOOR WAS TOO NARROW. FINALLY THEY TURNED TO THE FIRECHIEF FOR HELP--ASKING HOW ON EARTH THEY COULD SAVE THE MAN. THE CHIEF REPLIED: "WHY DON'T YOU JUST WAKE HIM UP, AND HE'LL SAVE HIMSELF".

THANK YOU

Senator **Mondale**. This hearing will now recess.

[The Subcommittee recessed at 12:12 P.M.]

[Appendix follows:]

APPENDIX

ASTHMATIC CHILDREN'S FOUNDATION

COUNCIL OF BETTER BUSINESS BUREAUS, INC.
1150 17TH STREET, N.W., WASHINGTON, D.C. 20036

REPORT

Summary
November, 1973

Asthmatic Children's Foundation, Inc.
133 East 58 Street
New York, New York 10022

(212) 355-2872

The information contained herein has been compiled from sources deemed to be reliable and, while not guaranteed, is believed to be factual and accurate. It is not intended to recommend or deprecate, and is furnished solely to assist you in exercising your own judgement.
THIS REPORT IS NOT TO BE USED FOR SALES OR PROMOTIONAL PURPOSES.

---

1. GENERAL

The Asthmatic Children's Foundation of New York was incorporated in October, 1963 in New York. It is a non-profit corporation established for the purpose of maintaining a treatment center for children with severe asthma and to support education and research in allergy problems. This center is located in Ossining, New York.

The Asthmatic Children's Foundation of New York is affiliated with the Asthmatic Children's Foundation of Florida in Miami Beach. CBBB is informed that this affiliated organization also operates a treatment center in North Miami Beach for children with severe asthma.

2. OFFICERS, DIRECTORS AND STAFF

President - M. Murray Peshkin, M.D.

All officers serve as members of the Board of Directors. A complete roster of other officers, members of the Board of Directors and staff at the Resident Treatment Center in Ossining is on file at the Council of Better Business Bureaus. The president of the Foundation, Dr. M. Murray Peshkin, also serves as chief medical officer and president of the Medical Board. Dr. Harold A. Abramson, also serves as a psychiatrist on the consulting staff of the treatment center and as vice president of the Medical Board.

The Council has requested but has not been provided a complete roster of officers and directors of the Asthmatic Children's Foundation of Florida, Inc. Recent letters of appeal have been signed by Dr. M. Murray Peshkin, Chief Medical Consultant. As noted above, Dr. Peshkin is affiliated with the Asthmatic Children's Foundation of New York.

3. ACTIVITIES

The Asthmatic Children's Foundation of New York, Inc. sponsors and supports the Residential Treatment Center in Ossining, New York. The Center is a 36 bed resident treatment center for chronic intractable asthmatic children.

Children between the ages of six and twelve who have severe asthma are eligible for admission, regardless of race or creed. Applications for admission are submitted by any social service agency or physician and are processed through the Foundation offices in New York. Children from New York are accepted for residential care at the Center and remain until it is determined that a satisfactory rehabilitation is effected, regardless of their ability to pay.

CBBB is informed that the Asthmatic Children's Foundation of Florida, Inc., has sponsored and maintained a treatment center in North Miami Beach for eight years. It is reported that this facility treats severely ill children who do not respond to treatment at the Center in Ossining. Patients not residing in New York State are eligible for admission to the Florida facility. The Council has requested but has not been provided more complete information regarding the operations of the Asthmatic Children's Foundation of Florida, Inc. and the Center in North Miami Beach.

4. FUND-RAISING

Funds for both organizations are raised through continuous direct mail appeals. These mailings include unordered merchandise (name labels). The CBBB reminds recipients they are under no obligation to pay for or return this merchandise.

5. FINANCIAL

The accounts of the Asthmatic Children's Foundation of New York are audited by Zemlock, Levy and Bick, certified public accountants of New York.

The Council has requested but has not been provided any financial information from the Asthmatic Children's Foundation of Florida. The financial information available for ACF of Florida is from the required annual financial report filed by the Foundation with the Office of the Secretary of State of Florida.

6. TAX STATUS

The Asthmatic Chldren's Foundation of New York, Inc. and the Asthmatic Children's Foundation of Florida, Inc. are ruled to be tax-exempt under section 501(c)(3) of the Internal Revenue Code. They are not private foundations.

Contributions are deductible as charitable contributions for Federal income tax purposes.

BEST COPY AVAILABLE

7. CBBB COMMENT

For the year ended August 31, 1972 the Asthmatic Children's Foundation of New York had total income of [illegible]. Of this amount, expenditures were: 21.3% for program services; 32.7% for fund-raising; and 13% for administrative and general expenses. Excess receipts over disbursements (33%) totaled $193,894.

The financial report filed with the office of the Secretary of State of Florida by the Asthmatic Children's Foundation of Florida, Inc. for the year ended August 31, 1972, shows current assets of $98,640 and current liabilities of $1,463.

Total income was $349,043. Of this amount expenses were 48.9% for operating expenses and 37.3% for fund-raising. Excess income over expenses was $48,007 (13.8%). The Balance at August 31, 1972 was $109,354. A more detailed breakdown of sources of income and expenses is on file at the Council.

Helen O'Rourke, Manager
Marilyn Kolb, Assistant Manager
Solicitations Review Section
Trade Practices Department
November 29, 1973

HO'R:MK:sc

ASTHMATIC CHILDREN's FOUNDATION
OF NEW YORK, INC.
Summary of Financial Activities*
for the Year Ended August 31, 1972

Income:	
Mail contributions	$ 397,090
Other contributions	23,070
Patient family contributions	2,025
Dividends	570
Interest	23,244
State of New York-Medical Aid	7,465
Peshkin Research Fund	80,000
Proceeds from Peshkin Birthday Party	53,863
Total Income	$ 587,327

Expenses	
Treatment Center	$ 125,188
Fund-raising expenses	191,765
Administrative and general expenses	76,480
Total Expenses	$ 393,433
Excess receipts over disbursements	$ 193,894

*As provided by Asthmatic Children's Foundation of New York, Inc.

HAROLD A. ABRAMSON, M. D.
133 EAST 58TH STREET
NEW YORK, N. Y. 10022

February 8, 1974

Mr. Jack Anderson
1612 K Street, N. W.
Washington, D.C. 20015

Dear Mr. Anderson:

In an article of yours published February 4, 1974, you mentioned a book by Dr. Harold Abramson. There is another Dr. Harold Abramson in the city who is not connected with the Asthmatic Children's Foundation. He has asked me to write you that it is I who is meant to be the person mentioned in your article.

Yours sincerely,

Harold A. Abramson, M.D.

HAROLD ABRAMSON, M.D.
1230 XXXX PARK AVENUE
NEW YORK, N. Y. 10028
(212) LEHIGH 4-0040 OR (212) SA - 2 - 4372

February 10, 1974

Mr. Jack Anderson
1612 K Street Room 906
Washington, D.C. 20015

Dear Mr. Anderson:

Re: The New York Post
Your Column of Monday, February 4, 1974
on " Food For War", page 31.

I write with reference to the " Asthmatic Children's Foundation" that was cited in your column as noted above. It stated that the Foundation's main office, located in Miami Beach, Florida, has raised millions to relieve youngsters of asthma, but that 86 percent of the moneys collected goes for fund raising activities and salaries.

Requests have been made for contributions to a three-dollar book, naming me, Dr. Harold Abramson, as a Foundation Director. I want to state that I have no connection whatsoever with the Foundation. While fully cognizant with the problems of acute and chronic asthma in children and adults, I have other interests in the fields of education and editing, as is noted below.

Your column should have named Dr. Harold A. (Alexander) Abramson of 133 East 58 th Street, New York, N.Y. 10028, as the Director in question. (Telephone - (212) 355 - 2872)

I feel that Senator Mondale and his staff of investigators should be informed accordingly, and that an early correction should be noted in your most interesting column. I trust that no further confusion will occur.

Thank you,

Sincerely,

Harold Abramson, M.D.

The most recent of my many publications have been:

Harold Abramson- Editor and Contributor: " Resuscitation of the Newborn Infant, and related emergency procedures in the perinatal special care nursery".

Harold Abramson, John F. Bertles, and Doris L. Wethers - Co-Editors and Contributors: " Sickle Cell Disease- Diagnosis, Management, Education and Research".

Both books were published by the C. V. Mosby Company of St. Louis, Missouri. (11830 Westline Industrial Drive) 63141
Telephone-(314) 872 - 8370

WESTERN UNION TELEX SERVICE

WU SEN WSH
ARTHYOUNG CGO
FEBRUARY 7,1974

1974FEB-7 PM 7:20

SEN. WALTER H. MONDALE, CHAIRMAN
SENATE SUBCOMMITTEE ON CHILDREN AND YOUTH
SENATE OFFICE BUILDING
WASHINGTON, D.C.

ON BEHALF OF THE BOARD OF TRUSTEES AND STAFF OF LA RABIDA CHILDREN'S HOSPITAL AND RESEARCH CENTER, CHICAGO, ILLINOIS, I VIGOROUSLY DENY THE STATEMENTS MADE BEFORE YOUR SUBCOMMITTEE BY DR. M. MURRAY PESHKIN AND ISRAEL FRIEDMAN (AS REPORTED IN THE FEBRUARY 6 AND 7 EDITIONS OF THE CHICAGO TRIBUNE) THAT WE HAVE EVER RECEIVED ANY FUNDS WHATSOEVER FROM THE ASTHMATIC CHILDRENS' FOUNDATION. LA RABIDA CHILDREN'S HOSPITAL AND RESEARCH CENTER IS A NOT-FOR-PROFIT ILLINOIS CORPORATION. BASIC FUNDS RECEIVED COME FROM THE WORK OF TWELVE AFFILIATED VOLUNTEER GROUPS.

HAROLD H. HENSOLD,JR.
PRESIDENT
BOARD OF TRUSTEES
LA RABIDA CHILDREN'S HOSPITAL AND RESEARCH CENTER
CHICAGO, ILLINOIS

ARTHYOUNG CGO
NO. WT RWYU

NO. 25 4267

EXHIBIT II

GIRL SCOUTS OF THE UNITED STATES OF AMERICA

CONSOLIDATED STATEMENT OF INCOME AND ALLOCATIONS

	For the year ended September 30,					
	1972			1971		
	General fund	Other funds	Total	General fund	Other funds	Total
ncome:						
Membership dues	$ 7, 783, 615		$7, 783, 615	$4, 138, 053		$4, 138, 053
National Equipment Service, net (Exhibit VI, Note 2)	2, 893, 796		2, 893, 796	2, 769, 035	($8, 521)	2, 760, 514
Gifts, grants and bequests:						
Restricted		$ 422, 348	422, 348	153	509, 364	509, 517
Unrestricted		569, 000	569, 000		499, 990	499, 990
Income from investments (including net loss on disposition of $308,130 in 1972 and net gain of $318,272 in 1971)	81, 153	(63, 440)	17, 713	33, 930	509, 055	542, 985
Property operations including interfund profit in 1972		182, 122	182, 122		91, 374	91, 374
Other	9, 281	4, 850	14, 131	14, 658	5, 751	20, 409
Total income	10, 767, 845	1, 114, 880	11, 882, 725	6, 955, 829	1, 707, 013	8, 662, 842
Expenses:						
Field services	2, 911, 543	87, 732	2, 999, 275	2, 868, 658	131, 659	3, 000, 317
Program development	343, 658	95, 651	439, 309	334, 284	186, 596	520, 880
International program	201, 863	256, 877	458, 740	187, 459	326, 589	514, 048
Public relations	408, 859	22, 199	431, 058	409, 496		409, 496
Materials production	262, 535		262, 535	248, 625		248, 625
Membership registration and credentials	344, 984		344, 984	325, 499		325, 499
Personnel, recruitment and training	486, 048	59, 408	545, 456	492, 334	76, 815	569, 149
National centers	302, 891	412, 470	715, 361	291, 011	356, 697	647, 708
American Girl, net (Exhibit VI, Note 3)	339, 545		339, 545	288, 606		288, 606
Girl Scout Leader, net (Exhibit VI, Note 4)	394, 746		394, 746	376, 817		376, 817
Board and executives offices	444, 751	10, 661	455, 412	422, 240	26, 083	448, 323
Financial administration	343, 363	4, 260	347, 623	336, 832	3, 217	340, 049
Management information system	311, 033	73, 802	384, 835	393, 978	30, 272	424, 250
General services	521, 203	3, 600	524, 803	455, 729	6, 510	462, 239
Girl Scout activity accident insurance	709, 000		709, 000	62, 000		62, 000
Other	132, 576	65, 270	197, 846	134, 325	149, 858	284, 183
Total expenses	8, 458, 598	1, 091, 930	9, 550, 528	7, 627, 873	1, 294, 296	8, 922, 169
Net income (loss)	$ 2, 309, 247	$ 22, 950	$2, 332, 197	($672, 044)	$412, 717	($259, 327)
Allocations (Exhibit IV):						
For capital fund	$ 1, 000, 000	$ 32, 214	$1, 032, 214	($740, 611)	$649, 430	($91, 181)
For special funds	1, 309, 247		1, 309, 247			
Contingencies fund		59, 580	59, 580	68, 567	49	68, 616
Excess expenditures over income—special funds (Exhibit V)		(68, 844)	(68, 844)		(236, 762)	(236, 762)
Net income (loss)	$ 2, 309, 247	$ 22, 950	$2, 332, 197	($672, 044)	$412, 717	($259, 327)

BEST COPY AVAILABLE

HELPFUL HINTS

KEYS TO SUCCESS

- SCOUTS TAKE ORDERS ____________________ TO ____________________
- ORDER CARD DUE BY ________________________________

TO BE SUCCESSFUL I WILL:

- KNOW THE 5 VARIETIES WE SELL. READ THE COVER OF THIS FOLDER.
- WEAR MY PIN OR UNIFORM.
- BE POLITE, COURTEOUS, AND THANK PEOPLE.
- TAKE MOM AND DAD'S ORDER FIRST!
- NOT ENTER STRANGE HOMES – OR SELL AND DELIVER ALONE.
- USE THE BUDDY SYSTEM
- CARRY TWO SHARP PENCILS OR BALL POINT PENS.
- LET CUSTOMERS WRITE THEIR OWN NAME, ADDRESS AND ORDER.
- REMIND PEOPLE THAT COOKIES FREEZE WELL.

WHEN I RECEIVE COOKIES I WILL:

- DELIVER COOKIES TO CUSTOMERS ________________ TO ________________
- NOT LEAVE COOKIES WITHOUT RECEIVING PAYMENT.
- COUNT MONEY CAREFULLY AND TURN IN BY ____________________

____

____

____

34-414 580

Dear Parents:

Our very important Annual Cookie Sale will begin shortly.

By participating in this Council effort, your daughter will make a substantial contribution to the over-all Girl Scout program. She will also help her Troop earn money for special activities, learn to meet the public courteously and have a lot of fun.

Why do we need a cookie sale? The Annual Cookie Sale gives the Girl Scouts an opportunity to earn money for their Troop activities; to help girls participate in special Girl Scout opportunities; to give direct services to girls; and to purchase equipment and property in their behalf.

You can help your daughter by reading this folder with her; showing an interest in her efforts; seeing that she's neatly dressed in uniform if she has one; reminding her to be courteous; checking to see that her order and money are correct and turned in on time; and, encouraging your friends and associates to buy cookies.

We deeply appreciate your enthusiastic support in this venture.

Sincerely,

YOUR GIRL SCOUT COUNCIL

GIRL'S COOKIE SALE RECEIPT

PACKAGES RECEIVED		MONEY TURNED IN		
DATE	NUMBER	DATE	AMOUNT	RECEIVED BY

Our Cookies Sell For $ ____________

Write Order Here

MY NAME IS ______________________________
ADDRESS ______________________________
PHONE NO. ________________ TROOP NO. __________

LAST NAME	ADDRESS	PHONE	NUMBER OF PACKAGES						Amt. to be collected from customer
			LEMON CREMES	CHOC. & VAN. CREMES	SCOT-TEAS	THIN MINTS	SAVANNAHS	TOTAL	
BURRY FORM 555X 7-73 (COLLECT FROM CUSTOMER UPON DELIVERY)		**Totals**							

POTOMAC AREA COUNCIL OF CAMP FIRE GIRLS
1761 R Street, N. W. Washington, D. C. 20009 Tel: 265-4740

1974 PEANUT SALE

THIS PEANUT SALE KIT FOR GROUP USE
SHOULD INCLUDE THE FOLLOWING ITEMS . . . . . . STANDARD OPERATING PROCEDURES:

Envelope Cover: Summarized Instructions
Sale Calendar
Important Names,
Addresses,
Phone Nos.

Inside Envelope:

Item 1. Table of Contents

Item 2. Sale Background Information (pages 2 and 3)

Item 3. Rebates and Recognitions (page 4)

Item 4. Handling Peanut Money (page 5)

Item 5. Work Sheet

Item 6. Report Forms

Item 7. Evaluation Form

Item 8. Peanut Sale Program Ideas (2 sheets)

Item 9. Conservation Suggestion

Each group also needs:

Bank Deposit Slips

"I Belong To Camp Fire" Tags

Parent Party Invitations

#1517, 12/73

PEANUT SALE BACKGROUND INFORMATION

I. Information to be given to ALL MOTHERS:

A. Why we sell:

1. The Council gets approximately one third of its operating funds from the United Way. The remainder is raised by the membership - through the Family Enrollment and through the PEANUT SALE.
2. The Peanut Sale also gives our young people the opportunity to earn money for their group treasuries. Each registered member in the group sells the first case of peanuts as a service to the Council, earning two hours of Service Credit thereby. After that, each can of peanuts sold earns 10¢ for the group's treasury!
3. Peanuts sell for $1 per can. Each can of peanuts costs the Council 59½¢. After paying the additional costs of taxes, paper, postage, awards and cash rebates, the profit to the Council is 31¢ per can.
4. Each member is expected to sell at least two (2) cases - 24 cans - as Fair Share, but there are some exciting incentives to SELL MORE this year! See page 4!

B. Why peanuts?

1. Camp Fire in this area has become identified with selling peanuts. People look forward to our sale each spring.
2. Vacuum-tinned peanuts are easy to handle, popular, non-perishable.
3. We have to sell at the time allotted to us by United Way/Health and Welfare Council - namely springtime. Candy would melt in the warm spring sunshine!

C. How parents help:

1. By chaperoning and transporting the young people as they sell both in residential neighborhoods and in commercial areas.
2. By giving enthusiastic support to the sale, and helping their children to feel parents back of them and this group activity.

D. How does the sale benefit our youth members?

1. It builds in them a sense of pride in giving service to their Council and to their groups.
2. It helps them learn to plan wise use of time in meeting responsibility.
3. It gives them a business experience in the real world that is exciting and satisfying.

II. Getting Ready:

A. Be sure your group as a whole and each member in your group is registered. Only those registered may earn rebate money and prizes.

B. Explain rebates, awards, and prizes; plan how the group will spend its rebate money. See page 4 for details on rebates, etc.

C. Use meeting time for peanut activities:

1. Practicing sales techniques.
2. Playing change-making games.
3. Making craft items relating to peanuts.
4. Cooking with peanuts.
5. Singing sale songs (see orange Program Ideas).

D. Stress good attitudes, proper costuming, need for adult chaperones, how to keep records, safety measures:

1. Sell in pairs. Blue Birds stay with buddies. More mature Adventurers may knock singly on doors of alternate houses - but with adult chaperone in close view.

#1518, 12/73 (continued next page)

II. D (continued)

2. An adult always accompanies our young people, whether selling residentially, commercially, or in apartments.
3. They never enter homes.
4. They smile and are gracious even when they fail to make a sale.
5. They must have a change purse to carry their money.
6. They should sell in official outfit - clean and neatly pressed. Boleros may be worn.
7. Prepare them to answer questions about their Camp Fire activities, the overall organization, and the use of peanut money.

III. Setting Up Peanut Sale for the Group.

A. When we sell:

1. Thursday, April 25 - Sunday, May 5. With approval of Neighborhood Peanut Chairman (NPC), good sellers may go into mop-up until May 14.
2. Best hours are 5 - 8 pm — when most people are home.

B. Where we sell:

1. Within our own districts - D.C., Mont., P.G./C., Va.
   - a. Define district boundaries and explain why it is important to stay within them, unless special permission has been granted.
   - b. Show how districts are divided into neighborhood areas for selling, based on membership concentration and fair division of sales opportunities. Explain "zoning" as outlined at LAS Peanut Meeting.
2. In other assigned territory.
3. In commercial areas as assigned by Neighborhood Peanut Chairman (NPC).
4. In additional territory secured by NPC. (Permits for selling in D.C. may be obtained by NPC's).

C. Handling the Peanuts:

1. Pick them up from your assigned drop-off. No peanuts will be issued to you unless you have filed an order form at the office, and are officially registered as a group.
2. Distribute them on the first day of the sale, according to your group's sale plan. Do NOT start sale before April 25th!!!!
3. Urge each seller to open only one (1) case at a time. You may want to transfer some cans to name-marked large bags (left in car trunk) to make boxes lighter to carry. Reinforce box handles with popsicle sticks.
4. Adult chaperone must have extra cases of peanuts and extra change.
5. Anticipate need, and request additional cases from your NPC.
6. Return surplus by last day of sale, but do not return partial cases. Your group can pool its extras, combining several partial cases into full ones for return. Then sell the ones that will not make a full case: there will never be more than 11.

D. Use of Adult Help:

1. Schedule parents to take group selling. One adult to four (4) young people works very nicely. Never go in large numbers to a commercial establishment. You will interfere with regular business, and create ill will.
2. Cover assigned territory, returning any you do not need to NPC. If commercial selling time is not used, call NPC immediately so time may be given to another group. Call NPC for additional territory as needed.

E. Reporting

1. Use enclosed report forms, reporting to NPC ON TIME. See additional information on forms themselves.
2. Deposit money often. Do not keep it lying around loose'. See pg. 5.
3. If all deposits are made on time and reports turned in on time, rebates will be ready for groups by mid June. CASH REBATE CHECKS IMMEDIATELY.

CAMP FIRE - POTOMAC AREA COUNCIL

1974 PEANUT SALE

REBATES AND RECOGNITIONS

FAIR SHARE MERIT CERTIFICATE	for each youth member who sells two (2) cases of peanuts. This also earns the right to buy a sales charm.
GOLD SEAL ON CERTIFICATE	for each youth member who sells three (3) cases of peanuts.
LARGE YELLOW BEAD	for each youth member who sells four (4) cases of peanuts.
PEANUT SALE EMBLEM	for each youth member who sells five (5) or more cases of peanuts. Emblems will show the number sold and the year. There is an accumulative emblem available for those whose sales over the years total 100 cases.
CAMP FIRE CARRY-ALL	for each youth member who sells five (5) or more cases of peanuts.
FIVE DOLLARS ($5.00) TOWARDS A WEEK AT CAMP OR A PIECE OF CAMP FIRE JEWELRY	for each youth member who sells ten (10) or more cases of peanuts.
FIVE DOLLAR GIFT CERTIFICATE (FROM LOCAL SUPPLY STORE)	for each additional five (5) cases sold by a youth member.
TOP SELLER PATCH	for each member of the group in each district which sells the most peanuts per registered members.
A WEEK AT CAMP MAWAVI + A TOP-SELLER PATCH	for the top-seller in each district.
CASH REBATES TO GROUPS	After selling one case (12 cans) for every registered member of the group as a service to the Council, the group receives 10¢ rebate on each can sold (or $1.20 per case).

* * * * * * * * * * * * * * *

If all reports are turned in on time, rebate checks will be mailed out by mid-June. They will be stamped VOID IF NOT CASHED WITHIN 90 DAYS*. Cash them right away, and plan carefully with your group how you will spend these funds: special equipment, a spree, a trip?

*Any rebate check not cashed in 90 days will revert to the Endowment Fund as a gift from the group to whom the check was issued. NO CHECK WILL BE REISSUED.

#1519, 12/73

1974 PEANUT SALE

HANDLING PEANUT MONEY

WHICH BANK

1. Sellers will give cash to the leader or peanut mother for the peanuts they sold. Adult should then DEPOSIT money in one of the Camp Fire PEANUT SALE BANKS. Please bank in case lots only (i.e., in multiples of $12).

2. You have been supplied with deposit slips marked POTOMAC AREA COUNCIL OF CAMP FIRE GIRLS, PEANUT FUND ACCOUNT*, and, in most cases, an account number.

   *(Just in case the printer missed a few slips, be sure each one really is marked "POTOMAC AREA COUNCIL OF CAMP FIRE GIRLS, PEANUT FUND ACCOUNT". If it isn't, please write it in.)

   IDENTIFY SLIPS

   To keep accounts clear, be sure to show on each deposit slip the name of the group leader.

   Coins must be wrapped and counted for deposit. You get wrappers from your bank. Each coin wrapper must also show the name of the leader.

3. Each time you deposit money, make out the deposit slip in TRIPLICATE (3 copies). Be sure group leader's name is on all 3 deposit slips. BANK MUST STAMP DUPLICATE DEPOSIT SLIPS. Bank in case lots only.
   a. You leave one copy at the bank
   b. You keep one copy
   c. You send the third copy to your NPC when you send her your sales reports
   d. You may deposit money in the bank as often as you wish. . . .
   BUT you must make at least one deposit by MAY 1 AND your final deposit MUST be made before final report is due in NPC's hands.

HOW TO DEPOSIT

WHEN TO DEPOSIT

4. DON'T FORGET to send one copy of each bank deposit slip, stamped by bank and group identified, to your NPC. Use Report Form in your kit. Report your progress and how much money you have deposited to your NPC on Wed., May 1. Then submit final report on Tues., May 7. If you help with mop-up and this is where group earns the big awards, - your NPC will give you special forms.

REPORT DATES

LEADERS AND PEANUT MOTHERS: Please do not try to give cash or checks to your NPC. She may accept only deposit slips.

NEIGHBORHOOD PEANUT CHAIRMEN (NPC's): Do not accept cash or checks, ONLY DEPOSIT SLIPS.

DO NOT CALL BANKS FOR DEPOSIT INFORMATION. BANKS WILL GIVE INFORMATION ABOUT PEANUT ACCOUNTS ONLY TO THE OFFICE!

#1520, 12/73

CAMP FIRE - POTOMAC AREA COUNCIL

1974 PEANUT SALE EVALUATION

LEADER OR PEANUT MOTHER: Turn this in with your final report.

NEIGHBORHOOD PEANUT CHAIRMAN (NPC): Use this sheet to pass on your suggestions to the District Peanut Chairman (DPC). Include leaders' evaluations.

DISTRICT PEANUT CHAIRMAN (DPC): Use this sheet to evaluate the sale in your district, making a duplicate copy for your file. Send your evaluation with all other evaluations to the office.

Do you feel that your group parents understood the sale? Did they help?:- -

Were the instruction sheets in your kit clear and helpful?:- -

What pre-sale programming did your group enjoy most?:- -

Was the sale a good experience for your group?:- -

Did you encourage more than "Fair Share" selling?:- -

Were the awards and prizes effective inducements to SELL MORE?:- -

How did you organize your sale?:- -

Did you consider commercial selling successful? Which did you find were the best places - the best times?: - -

Did you sell in apartments? Were you successful, and, if so, what did you do to make it easy and rewarding?

What problems did you have that you have not described already?: - -

Any cute stories we could use in FLAME or in promoting next year's sale?: - -

Other comments?: - -

NATIONAL YOUTH CLUBS OF AMERICA, INC.

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF STATE
COMMISSION ON CHARITABLE SOLICITATIONS
HARRISBURG, PENNSYLVANIA
17120

COMMISSIONERS:
C. DELORES TUCKER, CHAIRMAN
SECRETARY OF STATE
ISRAEL PACKEL
ATTORNEY GENERAL
J. FINTON SPELLER, M.D.
SECRETARY OF HEALTH
HELENE WOHLGEMUTH
SECRETARY OF PUBLIC WELFARE
HON. JANE ANN BUNTING
HON. RONALD J. PEDRICK
HON. BENJAMIN G. BERNSTEIN

PHONE: 717-783-1720

May 1, 1973

National Youth Clubs of America, Inc.
1000 Skokie Blvd.
Wilmette, Illinois 60091

Attention: Mr. Morrie S. Friedman

Dear Mr. Friedman:

In mid-April, our office received a number of complaints from consumers in the Greater Harrisburg Area with respect to your organization.

One such complaint, which came from the American Cancer Society, was that youngsters representing "National Youth Clubs of America" were reported to be claiming that funds raised from selling cookies and candy went to the Cancer Society. However, the American Cancer Society had not authorized the solicitations nor was it receiving any of the proceeds.

In our preliminary investigation, despite receiving no cooperation from either your Wilmette office or the E. G. Whitman Co., we were able to finally uncover the identify of your Harrisburg agent, Vincent E. Spadafore of 752 Erford Road, Camp Hill, Pennsylvania, and contact him.

Mr. Spadafore claims that he represents a profit-making organisations which does not solicit for any charitable purpose.

However, it is the responsibility of our Department to determine an organization's charitable status. And, we can only do so after have supplied us with the necessary information.

Please complete the enclosed forms including a complete and audited financial statement.

Until we are able to issue a ruling on the purpose of National Youth Clubs of America, Mr. Spadafore is advised that he solicits at his own peril.

In a related matter, our preliminary investigation revealed that your organization is not registered in Pennsylvania with our Corporation Bureau as required by law.

Furthermore, we have contacted the Corporation Tax Bureau in the Department of Revenue which does not have your organization listed in their registry. We have duly notified these agencies of the existence of your corporation in the Commonwealth, and they will undoubtedly be in contact with you.

It is imperative that you give us your complete cooperation and prompt attention in this matter.

Very truly yours,

Carol Cochran
Director

cc: Attorney Albert Hajaar, Asst. Attorney General
Department of Revenue

Mr. Vincent Spadafore

AMERICAN CANCER SOCIETY

PENNSYLVANIA DIVISION, INC.
3309 SPRING STREET - BOX 4175
HARRISBURG, PENNSYLVANIA 17111
TELEPHONE (717) 545-4215

April 16, 1973

Miss Carol Cochran
Director--Commission of Charitable Organizations
North Office Building--Room 301
Pennsylvania Department of State
Harrisburg, PA 17120

Dear Miss Cochran:

The American Cancer Society, Pennsylvania Division, Inc., was notified on April 5, 1973, that a young boy representing the National Youth Clubs of America was selling cookies door to door in New Cumberland, Pennsylvania, and he stated that he was selling these cookies for Cancer.

The wife of the man who bought these cookies was suspicious and called our office. She was informed this is Cancer month, but we in no way have authorized this group or any other group to sell cookies door to door on our behalf.

The cookies were sold for $1.75 a box and the box states that they are distributed by E. G. Whitman & Co., Philadelphia, Pennsylvania 19134.

We want to lodge a formal complaint and request the Commission of Charitable Organizations to investigate the activities of the Youth Group selling cookies and using Cancer as a means to do so.

If you need additional information, please feel free to call me.

Sincerely,

Clarence C. Boyd, Jr.

Clarence C. Boyd, Jr.
Crusade Director

RECEIVED
[illegible]
[illegible]

CCB:lsr

cc: Charles Leiss
Cumberland County Unit

WILLIAM J. SCOTT
ATTORNEY GENERAL
STATE OF ILLINOIS

CHICAGO OFFICE
100 NORTH LA SALLE STREET
60601

TELEPHONE
793-3500

May 29, 1974

Honorable Walter F. Mondale
United States Senator
Dirksen Senate Office Bldg.,
Washington, D.C. 20510

RE: PEOPLE vs. NATIONAL YOUTH CLUBS OF
AMERICA, INC., et al.
Case No. 74 CH 2450

COPY

Dear Senator:

This is to inform you that our office has obtained a Preliminary Injunction for accounting of scholarships allegedly paid under the National Youth Clubs of America, Inc. candy sales marketing scheme.

As you recall, the above organization through its Director, Mr. Morrie S. Friedman, testified on March 12 before your Sub-Committee on Children and Youth. As a result of his testimony and our previous investigation, we were able to file a Complaint and obtain a Preliminary Injunction on May 23, 1974.

Thank you for your assistance in this matter and we wish continued success to your hearings on the abuse and exploitation of the youth of this country.

Very truly yours,

DONALD G. MULACK
Chief of Litigation
Charitable Trusts & Solicitations Div.

DGM/dd

cc: Harvey Katz
Committee Counsel
Sub-Committee on Children & Youth
Dirksen Senate Office Bldg.
Washington, D.C. 20510

cc: Complaint & Injunction attached.

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
CHANCERY DIVISION

PEOPLE OF THE STATE OF ILLINOIS,
ex rel. WILLIAM J. SCOTT,
Attorney General of Illinois,

Plaintiffs,

vs.

NATIONAL YOUTH CLUBS OF AMERICA, INC.,
an Illinois corporation, MORRIE S.
FRIEDMAN, individually and as Officer
and/or Agent thereof, and JUDITH K.
FLETCHER, individually and as Officer/
Agent NATIONAL YOUTH CLUBS OF AMERICA, INC.,

Defendants.

NO. 74 CH 2450

PRELIMINARY INJUNCTION

This cause coming on to be heard on the application of Plaintiff for a Preliminary Injunction pursuant to the terms and provisions of Chapter 69, Ill. Rev. Stats., 1973, and the Court having heard testimony introduced by Plaintiff, considered the documentation introduced into evidence and heard argument of counsel thereon, and upon the failure of defendants to introduce counter-testimony and counter-evidence, and the Court being fully advised in the premises, FINDS:

1. That the Court has jurisdiction of the subject matter and the parties hereto.

2. That the Defendants herein, and each of them, have sold merchandise, licenses, and/or distributorships in the State of Illinois pursuant to a certain marketing program.

3. That the uncontraverted evidence further shows that the marketing program of the defendant corporation utilized distributors, crew managers and children salesmen, which salesmen were age ~~twelve~~ eleven and ~~thirteen~~ twelve. JMC

4. That pursuant to said program the Defendants disseminated promotional materials described as Plaintiffs Exhibits #3 and #4, which materials represent to the public that children salesmen in the program will receive "Annual Scholarships" or "College Scholarships, when in fact, the evidence has shown that ~~little, if any,~~ no scholarships have been granted, ~~at all.~~ JMC

5. That the evidence introduced by Plaintiff shows that

the Defendants have failed to keep a proper account of scholarships earned, scholarships granted and paid, and the names of the recipients thereof.

6. That the evidence further shows that the defendant corporation is chartered in Illinois under the general For-Profit Corporation Act, as amended, although said Exhibit #3 indicates the Defendant is a "Limited Profit" corporation~~, and that there is great likelihood that confusion has developed in the minds of the public~~.

7. That the uncontraverted evidence further shows that funds from the NATIONAL YOUTH CLUBS OF AMERICA, INC., checking account #101028 at the Edens Plaza State Bank were used to pay debts and expenses of another corporation called Plantation Candyland in which the Defendant, MORRIE S. FRIEDMAN, is currently employed.

8. That the uncontraverted evidence shows that approximately $974,040.21 in monies were deposited into said checking account from August, 1972 through April, 1974, inclusive.

9. That the uncontraverted evidence further shows that the Defendant, JUDITH K. FLETCHER, is President and sole stock holder of the defendant corporation and in said capacity was the signatory on the majority of checks written on said account.

10. That the uncontraverted evidence further shows that the Defendant, MORRIE S. FRIEDMAN, is and was the Director of Marketing and Finance for the defendant corporation and in said capacity directed all day to day operations and corporate policy for the defendant corporation.

11. That this Court is the guardian of the public interest and that the public interest herein so outweighs any interest of the Defendants that the Defendants are without equity and the equities herein are with the Plaintiffs.

12. That any continued activity by the Defendants herein in which they purport to be selling candy pursuant to the purported scholarship program, or any other program, through the use of children and/or young adults under the age of eighteen ~~twenty one~~, would continue to cause immediate and irreparable injury, loss or damage to the Plaintiffs as applicants for this Preliminary Injunction.

13. That said immediate and irreparable injury, loss or damage, is continuing and so detrimental to the public interest that a Preliminary Injunction Order is appropriate, and is of such nature that members of the public will be harmed unless by Court Order said Defendants are restrained from further acts as shown herein.

JMC 14. ~~That~~ Based upon the evidence presented, it is probable that the Plaintiff will ultimately succeed in a trial on the merits of the case.

15. That the Plaintiffs are without adequate remedy at law.

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED:

A. That the defendants, NATIONAL YOUTH CLUBS OF AMERICA, INC., an Illinois corporation, MORRIE S. FRIEDMAN, individually and as Officer and/or Agent thereof, and JUDITH K. FLETCHER, individually and as Officer/Agent of NATIONAL YOUTH CLUBS OF AMERICA, INC., their agents, employees and servants and persons in active concert or participation with them and each and every defendant who receives actual notice of this order by personal service or otherwise, be and are hereby restrained from withdrawing or removing any monies from their business and personal banking and checking accounts, or any other bank or institution in which said money may be deposited, or from closing any and all such accounts where said money may be deposited, and further enjoined from removing any assets from the jurisdiction of this Court, ~~acting~~ pending final determination of this cause. JMC

B. That the defendants herein, and each of them, are hereby ordered to account to the plaintiffs for all sales of merchandise and distributorships, licenses or franchises sold by the defendant corporation pursuant to their marketing program from June, 1972, to the date of this order.

C. That the defendants, and each of them, be and are hereby restrained from disseminating promotional materials to the corporations, distributors, licensees or franchisees pursuant to said marketing program, and that said defendants be and are hereby restrained from conducting any business of the NATIONAL YOUTH CLUBS OF AMERICA, INC., pending the final determination of this cause. JMC

D. The defendants, and each of them, and any and all persons acting on their behalf, their agents, employees and servants, are further hereby restrained during the pendency of this order from employing children and young adults under the age of ~~twenty one~~ eighteen in the conduct of any business, charity or marketing program until further order of this Court.

~~E. That the individual defendants, MORRIE S. FRIEDMAN and JUDITH K. FLETCHER be and are hereby ordered to deliver to plaintiff copies of their personal IRS Form 1040 or 1040A showing the income and taxes paid the Internal Revenue Service for the years 1972 and 1973, if said returns were in fact prepared and filed with the Internal Revenue Service.~~

ENTER:

JUDGE

— 23 May 1974 —

WILLIAM J. SCOTT
Attorney General of Illinois
and
DONALD G. MULACK
Assistant Attorney General
Room 2200, 188 W. Randolph Street
Chicago, Illinois 60601
Telephone: 793-2595

OF COUNSEL

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
CHANCERY DIVISION

PEOPLE OF THE STATE OF ILLINOIS,)
ex rel. WILLIAM J. SCOTT,)
Attorney General of Illinois,)
)
Plaintiffs,)
)
vs.) NO. 74CH 2450
)
NATIONAL YOUTH CLUBS OF AMERICA, INC.,)
an Illinois corporation, MORRIE S.)
FRIEDMAN, individually and as Officer)
and/or Agent thereof, and JUDITH K.)
FLETCHER, individually and as Officer/)
Agent NATIONAL YOUTH CLUBS OF AMERICA, INC.)
)
Defendants.)

COMPLAINT FOR INJUNCTION

NOW COMES THE PEOPLE OF THE STATE OF ILLINOIS, ex rel. WILLIAM J. SCOTT, Attorney General of Illinois, Plaintiffs, and in complaining of the Defendants, NATIONAL YOUTH CLUBS OF AMERICA, INC., an Illinois corporation, MORRIE S. FRIEDMAN, individually and as Officer and/or Agent thereof, and JUDITH K. FLETCHER, individually and as Officer/Agent NATIONAL YOUTH CLUBS OF AMERICA, INC., states as follows:

COUNT I

1. That your Relator brings this cause of action for and on behalf of the PEOPLE OF THE STATE OF ILLINOIS, pursuant to and under his common law powers and authority as Attorney General to represent the PEOPLE OF THE STATE OF ILLINOIS in matters pertaining to charitable organizations, purported charitable organizations, charitable solicitations and purported charitable solicitations.

2. That the Defendant, NATIONAL YOUTH CLUBS OF AMERICA, INC., is chartered as an Illinois for-profit corporation (hereinafter called N.Y.C.A.) for the purposes of:

> "Sales of furniture, household furnishings and related articles. Sales of items of all types and nature for personal consumption,"

and pursuant thereto has engaged in business in the County of Cook, State of Illinois for the sale of candy door-to-door, through its marketing agents and is further engaged in the sale of "distributorships" of said company in accordance with the "Distributorship Purchase Agreement" attached hereto and made a part hereof as Exhibit 'A'.

3. That the Defendant, MORRIE S. FRIEDMAN, is an Agent and/or Officer of said corporation who is primarily responsible for corporate policy of N.Y.C.A. under the title "Director of Marketing and Finance" and in said capacity directs all day-to-day operations of said corporation.

4. That the Defendant, JUDITH K, FLETCHER, is an Officer and Director of said corporation and said capacity was and is a participant in the matters alleged herein.

5. That since September 1, 1972 to date, the Defendants, and each of them, have operated a marketing scheme, pursuant to certain promotional materials and representations, which scheme is designed to sell candy door-to-door through various levels of marketing agents; to-wit:

A. Level No. One: Corporation (N.Y.C.A.)

B. Level No. Two: Distributors

C. Level No. Three: Crew Managers

D. Level No. Four: Children Salesmen
Ages 8 - 13

6. That in furtherance of said scheme said Defendants designed, printed, published and caused to be disseminated, certain promotional materials to aid in the sale of said candies to the public, which promotional materials represent that said children salesmen are working to earn an "annual scholarship...used to further their education in their chosen field," a copy of said promotional materials are attached hereto and made a part hereof as Exhibit 'B'.

7. That upon information, belief and complaints to your Relator, numerous members of the public have purchased said candies believing the representations as stated in Exhibit 'B' to be true;

namely, that the children salesmen would obtain annual scholarship awards for their efforts, when in fact,

> (A) No such scholarships have been paid by the Defendant, N.Y.C.A.
>
> or,
>
> (B) If any have been paid at all by N.Y.C.A. the number is so miniscule in relation to the gross retail sales that its percentage is so negligible as to render said scholarships non-existent.

8. That the very nature of said marketing scheme employing children of tender ages who represent that they are working for a scholarship in a scholarship program is calculated to evoke sympathy from the purchasing public and to create an aura of charitable giving, thereby causing said public to pay an overly-inflated price for said candy, the proceeds of which said public believes are to be used for said scholarship program.

9. That due to said representations, promotional materials and method of operation, the Defendant, N.Y.C.A., is purporting to be a charitable organization, eleemosynary in nature, which is a "Limited Profit Corporation" as described in said Exhibit 'B'; when, in fact, there is large profit to said Defendants but conversely, only limited benefit to said children salesmen and said scholarship program.

10. That your Relator, by reason of the matters and allegations set forth herein, has good and sufficient reason to believe that the Defendants, and each of them, have collected a large and unspecified amount of money through the misrepresentations alleged herein, which misrepresentations were knowingly made by said Defendants with the intent of defrauding the public into purchasing said candy and for the purpose of enriching themselves.

11. That due to said sales, solicitations for sales and representations employed in the door-to-door method of operations, said Defendants have entered the domain of charitable giving and thereby are holding the proceeds of the candy sales in the public trust for which an accounting is due this Court and the People of the State of Illinois.

12. That the monies retained and held by said defendants, and each of them, were obtained through said misrepresentations regarding a purported scholarship fund, were obtained unlawfully and are thereby being held for the benefit of said scholarship fund and in a constructive trust for and on behalf of the public, the children salesmen and the People of the State of Illinois.

13. That your Relator believes that said defendants, and each of them, have various monies in business banking accounts and personal banking accounts in which the proceeds of said sales and solicitations are being held and over which Relator maintains a constructive trust is impressed.

14. Your Relator further maintains that immediate and irreparable harm has occurred to the public and will continue to occur unless the defendants conduct is restrained, an accounting given and a constructive trust imposed, for which your Relator has no adequate remedy at law save in a Court of Equity.

COUNT II

15. That your Relator repeats and realleges the matters as contained in Paragraphs one through six inclusive, of Count I hereof, and incorporates same by reference as though fully contained herein.

16. That in furtherance of said marketing scheme, the defendants have counseled, coached and encouraged their distributors and crew managers to train the children salesmen to create the aura of charitable giving at the doorstep of the public by causing said children to mislead the public through false and untrue statements; namely;

(A) That N.Y.C.A. is a non-profit organization benefitting youth,

(B) That he (the child salesman) is working for a scholarship,

when, in fact, said children salesmen being of tender years are unaware that their statements are false and untrue.

17. That your Relator repeats and realleges the matters as contained in Paragraphs eight through fourteen inclusive, of Count I hereof, and incorporates same by reference as though fully contained herein.

COUNT III

18. Your Relator repeats and realleges the matters as contained in Paragraphs one through five inclusive, of Count I hereof, and incorporates same by reference as though fully contained herein.

19. That on October 4, 1972 the defendant, N.Y.C.A. was incorporated by the State of Illinois through Articles of Amendment to an existing Illinois corporation, HOME INTERIOR DESIGNS, INC.; that the resulting corporate purpose of N.Y.C.A. and the authority granted it by the State of Illinois was limited solely to the:

> "Sales of furniture, household furnishings and related articles. Sales of items of all types and nature for personal consumption."

20. That since said date of October 4, 1972 to the present, the defendant N.Y.C.A. has sold numerous distributorships in and about the State of Illinois, which activity exceeded the authority granted said corporation by its corporate charter and which activity is an abuse of authority subjecting said corporation to involuntary dissolution according to Ch. 32, Section 157.82 (c), Ill. Rev. Stat., (1973).

WHEREFORE, on behalf of the People of the State of Illinois, your Relator, William J. Scott, Attorney General of Illinois, prays that the Court may enter the appropriate orders as follows:

A. Granting to plaintiffs a temporary restraining order, with notice and without bond, restraining the defendants, and each of them, and any and all persons acting on their behalf as agents, employees or servants, from withdrawing or removing any monies from their business and personal banking and checking accounts, or any other bank in which said money may be deposited, or from closing any and all such accounts where said money may be deposited;

B. Issuing said order impounding said funds at said institutions as described above or any other bank or institution where said funds may be deposited until further order of this Court;

C. That this Court enter an order requiring the defendants, and each of them, to truly, fully and accurately account to this Court, to the People, and to your Relator, for all funds or property, or other things of value delivered to the defendants or received by them from N.Y.C.A.'s distributors and crew managers and from the public as a result of their sales and scholarship program from the date of incorporation in Illinois to the date hereof.

D. That upon such accounting this Court impose a constructive trust, over those monies received by said defendants, for the benefit of the scholarship program on behalf of Illinois residents and residents of other states who may have claim thereto.

E. That upon a full, complete and truthful accounting issue the appropriate orders requiring restitution from the defendants to the public and the People of the State of Illinois.

F. That upon a final hearing of the matters herein alleged that this Court enter a permanent injunction permanently restraining the defendants, and each of them, and any and all persons acting on their bhalf, their agents, employees and servants from ever conducting a business in Illinois which employs children under the age of sixteen to sell door-to-door.

G. That this Court enter an order dissolving the defendant corporation for abuse of its charter pursuant to Ch. 32, Section 157.82 (c), Ill. Rev. Stat., (1973).

H. That the Court may enter an order taxing and assessing all costs of this proceeding against defendants,

I. And such other orders as equity may require and that this Court may seem just.

William J. Scott
WILLIAM J. SCOTT, Relator
Attorney General of Illinois

WILLIAM J. SCOTT
Attorney General of Illinois
and
DONALD G. MULACK
Assistant Attorney General
Room 2200, 188 W. Randolph St.
Chicago, Illinois 60601

STATE OF ILLINOIS)
) SS
COUNTY OF C O O K)

VERIFICATION

BARBARA HOWELL, an employee of the Attorney General, being first fully sworn on oath deposes and states that the matters as contained in the foregoing Complaint are true in substance and in fact except those matters as alleged upon information and belief of which she believes them to be true.

Barbara R. Howell
BARBARA HOWELL

SUBSCRIBED AND SWORN TO
before me this 11th
day of April, 1974.

NOTARY PUBLIC

NATIONAL YOUTH CLUBS OF AMERICA, INC.
DISTRIBUTORSHIP PURCHASE AGREEMENT

THIS AGREEMENT, made this .... day of .... 197...... at Wilmette, Illinois by and between NATIONAL YOUTH CLUBS OF AMERICA, INC., an Illinois Corporation (hereinafter called "COMPANY"), and ....

....

ADDRESS: ....

CITY: .... STATE: ....

(hereinafter called "DISTRIBUTOR");

WITNESSETH:

WHEREAS, COMPANY is engaged in business for the purpose of providing jobs for the youth of America and to that end, through the sale of its products on a door-to-door basis; and

WHEREAS, COMPANY has developed as trade secrets, procedures for the successful marketing, advertising, and obtaining of sales personnel in the distribution of its products; and

WHEREAS, COMPANY has developed a complete and integral distributorship program for the sale of its products using the name "NATIONAL YOUTH CLUBS OF AMERICA"; and

WHEREAS, the products of COMPANY generally are of a nature for personal use and consumption including but not limited to candies, cookies and other items; and

WHEREAS, DISTRIBUTOR is desirous of purchasing a distributorship and wishes to secure the benefits of the experience and promotional efforts of COMPANY, and thereby participating in the sale of COMPANY'S products by and through use of COMPANY'S marketing distribution techniques and home retailing teams; and

WHEREAS, COMPANY hereby desires to grant to the DISTRIBUTOR the following territory: ....

....

....

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and other good and valuable consideration by each of the parties hereto, the receipt and sufficiency of which is hereby acknowledged,

IT IS THEREFORE MUTUALLY AGREED:

ARTICLE FIRST: APPOINTMENT OF DISTRIBUTOR AND TERRITORY

1. COMPANY hereby appoints, and grants to .... the privilege of being a distributor for products sold under its NATIONAL YOUTH CLUBS OF AMERICA PROGRAM.

2. COMPANY agrees to make available to DISTRIBUTOR the territory as more fully set forth above and to the extent that working teams created by COMPANY are not impaired in the performance of their COMPANY appointed functions.

ARTICLE SECOND: TERM

This Agreement shall be in existence for a period of five (5) years from the date of its execution except as otherwise mutually agreed upon by the parties. Said Agreement may be renewed by mutual agreement of the parties for an additional term of five (5) years providing DISTRIBUTOR has conformed to and fulfilled all of the duties, obligations and terms set forth below.

ARTICLE THIRD: EXPANSION

COMPANY agrees to work with and aid DISTRIBUTOR in obtaining expansion financing up to forty percent (40%) after six (6) months of operation, provided, however, that DISTRIBUTOR has devoted his best time and efforts towards instituting a successful operation, sound expansion, and qualifies under normally accepted commercial standards.

ARTICLE FOURTH: ADVERTISING

COMPANY agrees to supply DISTRIBUTOR with such quantities and types of advertising materials and other sales aids, as in the COMPANY'S opinion are necessary and useful for successful operation of the distributorship.

ARTICLE FIFTH: PRODUCT PURCHASE — SUPPLY

1. DISTRIBUTOR hereby orders $.............................. worth of COMPANY'S products in such kinds and quantities as determined by the COMPANY to be in the best interests of a successful distributorship and COMPANY shall have sole right to determine opening inventory of distributorship.

2. Products selected by COMPANY for DISTRIBUTOR are subject to being drawn down and delivered after payment by DISTRIBUTOR prior to ....

3. DISTRIBUTOR agrees herein to tender a twenty-five percent (25%) security deposit against product order in such total of $..............................

4. COMPANY agrees and DISTRIBUTOR understands that twenty-five (25%) of the security deposit is earned and shall be returned through and applied towards future purchases.

5. DISTRIBUTOR further agrees to purchase its products solely from COMPANY and to seek and supply its groups with COMPANY'S products. Failure to order all products from COMPANY and within a reasonable time shall, at COMPANY'S option, result in the immediate termination of this distributorship, upon fourteen (14) days written notice from COMPANY, and the forfeiture of any deposit money held by COMPANY, from DISTRIBUTOR, as liquidated damages and not as a penalty.

6. COMPANY agrees to supply products for DISTRIBUTOR. DISTRIBUTOR agrees to sell only authorized "NATIONAL YOUTH CLUBS OF AMERICA" products.

ARTICLE SIXTH: SUPPLY OF PRODUCT

1. COMPANY agrees to maintain a supply of products available for DISTRIBUTOR and to that end, agrees to ship products within a reasonable time of receipt of an order from DISTRIBUTOR, writing in conformity with COMPANY required forms, rules and procedures.

2. DISTRIBUTOR agrees that all product shipments must be picked up by him within five (5) days of receipt of notice of their availability and further to pay all monies including shipping charges to COMPANY. Failure of DISTRIBUTOR to complete purchases as set forth herein, may at COMPANY'S option, result in application of monies held by COMPANY for DISTRIBUTOR as liquidated damages sustained by reason of such failure by DISTRIBUTOR.

ARTICLE SEVENTH: FULL AND BEST EFFORTS

DISTRIBUTOR agrees to devote his reasonable and best efforts in the sales and service of COMPANY'S products in the territory set forth above. Further, DISTRIBUTOR agrees to submit sales reports to COMPANY on COMPANY forms as required by COMPANY'S rules, procedures, and regulations. DISTRIBUTOR agrees to follow all policies of the COMPANY in the operation of the distributorship as set forth in printed brochures and documents furnished to DISTRIBUTOR, and DISTRIBUTOR agrees to obey all local, state and federal laws.

ARTICLE EIGHTH: DISTRIBUTOR AS INDEPENDENT CONTRACTOR

1. It is acknowledged by the parties that DISTRIBUTOR shall govern his own time and efforts in the sale of COMPANY products. As such, DISTRIBUTOR acknowledges that he is an independent contractor and not an agent, employee, or servant of COMPANY, and to that end will so hold himself out to the public.

BEST COPY AVAILABLE

2. DISTRIBUTOR agrees that he will not enter into any contracts or in any other way bind COMPANY, transact business or make any promises or representations on behalf of COMPANY. Further, he agrees to be solely responsible for and to indemnify and hold harmless COMPANY from any liability, actual or contingent, arising out of the activities of his distributorship by and through himself, his employees, agents or servants.

3. Failure by DISTRIBUTOR to conform to the provisions of this Article may, at COMPANY'S option, result in forfeiture of all rights of DISTRIBUTOR and cancellation of said distributorship provided, however, that DISTRIBUTOR shall have thirty (30) days from date of receipt of notice from COMPANY of breach of any of the provisions of this Article to make proper corrections.

ARTICLE NINTH: COVENANT NOT TO COMPETE

1. DISTRIBUTOR agrees that in the event of termination of his status as a distributor for COMPANY, for any reason whatsoever, he will not, for a period of three (3) years, either directly or indirectly, as owner, partner, distributor, broker, salesman, agent, employee, or otherwise, engage in any business, enterprise or other activity within the state wherein he has theretofore conducted his distributorship for COMPANY; nor will DISTRIBUTOR either directly or indirectly, within said three (3) year period sell, offer for sale or attempt to sell any products or services similar in type or nature to those sold by COMPANY.

2. DISTRIBUTOR further agrees that any information divulged to him or obtained by him relative to the conduct of COMPANY'S business, its sources of supply, sales and marketing techniques and other business methods and procedures shall be received and held by him in the strictest trust and confidence, and shall not be divulged by him to any other person without the express prior, written consent of COMPANY, said information being mutually construed as "trade secrets."

3. DISTRIBUTOR agrees that upon receipt of notice by him from COMPANY of termination of his status as a distributor, for any reason whatsoever, he will cease and desist from any further use of COMPANY name or any derivative thereof.

ARTICLE TENTH: CANCELLATION

1. DISTRIBUTOR shall have the option to cancel and rescind this Agreement by serving written notice on COMPANY not more than ninety (90) days and not less than thirty (30) days prior to the first anniversary date of this agreement. Upon cancellation, COMPANY shall repurchase any unopened product in dozen lots provided it is, in COMPANY'S opinion, suitable for prompt resale providing DISTRIBUTOR has complied with COMPANY'S rules and regulation as to product sales and further provided said merchandise is returned pre-paid to the COMPANY at Wilmette, Illinois.

ARTICLE ELEVENTH: TEAM TRAINING AND HIRING

COMPANY agrees to hire two (2), four (4) Unit Teams and a Team Manager for each. These Teams are for the sole purpose of selling COMPANY products on a door-to-door basis.

ARTICLE TWELFTH: ASSIGNABILITY OF DISTRIBUTORSHIP

DISTRIBUTOR shall have the right, upon thirty (30) days prior notice in writing to COMPANY, to sell or otherwise assign his distributorship rights to a party agreeable to COMPANY and providing that DISTRIBUTOR shall offer COMPANY the first right to repurchase, under the same terms and conditions as the average price of all bona fide offers, received by DISTRIBUTOR. Should COMPANY fail to exercise said option within thirty (30) days from date of receipt of notice from DISTRIBUTOR, DISTRIBUTOR shall then have the right to offer said distributorship to a third party or parties.

ARTICLE THIRTEENTH: MISCELLANEOUS PROVISIONS

1. COMPANY agrees to replace any defective merchandise provided it shall be returned pre-paid to COMPANY.

2. Notwithstanding the other Articles of this Agreement to the contrary, COMPANY shall not be deemed in default under any of the provisions of this Agreement, if performance thereof is prevented or made difficult to accomplish as the result of strikes, Acts of God, or other causes beyond its control.

3. COMPANY agrees to provide necessary bookkeeping forms, order forms, and related items needed for operation of distributorship. DISTRIBUTOR agrees to use such forms in the manner as prescribed by COMPANY.

4. COMPANY shall, at its option, have the right to examine and inspect the books, records, premises, and facilities of the DISTRIBUTOR at all reasonable times and places.

ARTICLE FOURTEENTH: FULL AND COMPLETE UNDERSTANDING OF PARTIES

The parties agree that they have read the entire contents of this Agreement, and this is the entire Agreement, and that no other promises or representations have been made other than those contained herein. Any allegation, representation, statement or warranty, whether written or implied, and not contained herein, shall not be binding on either party. Unless otherwise provided herein, all monies paid are non-returnable and shall be deemed to be liquidated damages to the COMPANY. Nothing contained herein implied any possible or probable income from COMPANY'S operation, and the success of DISTRIBUTOR is solely dependent upon his business management. This Agreement and its interpretation, together with performance and breach, is to be governed by and construed according to the laws of the State of Illinois.

ARTICLE FIFTEENTH: SEVERABILITY

That the invalidity of any provision of this Agreement shall not impair the invalidity of any other provision. If any provision of this Agreement is determined by the Court of competent jurisdiction to be unenforceable, such provision shall be deemed severable and the Agreement may be enforced with such provision severed or as modified by such Court.

ARTICLE SIXTEENTH: ACCEPTANCE — FINAL APPROVAL

1. This Agreement shall be deemed to be binding, approved, and accepted only upon the affixing of authorized signatures of COMPANY officers at Wilmette, Illinois.

2. This Agreement sets forth the entire understanding of the parties. It may only be amended or modified by instrument signed by the parties hereto.

IN WITNESS WHEREOF, I HAVE READ THIS DISTRIBUTORSHIP PURCHASE AGREEMENT, AND UNDERSTAND ALL OF ITS TERMS AND CONDITIONS AND HEREBY ACKNOWLEDGE RECEIPT OF A COPY OF SAME.

The parties hereto have executed this Agreement this ______ day of ________________, 19____.

NATIONAL YOUTH CLUBS
OF AMERICA, INC.

EXECUTIVE OFFICES
1000 Skokie Boulevard
Wilmette, Illinois 60091
Phone: 312-256-5360
National Watts Line: 800-323-3726

BY: ______________________________
President

Corporate Seal:

COMPANY REPRESENTATIVE:

DISTRIBUTOR APPLICANT:

____
Name

____
Address

____
City, State, Zip

____
Telephone

____
Date Signed

NATIONAL YOUTH CLUBS OF AMERICA AND YOUR COMMUNITY

HELP A YOUTH TO HELP HIMSELF

NATIONAL
YOUTH
CLUBS
OF
AMERICA

We are pleased to take this opportunity to introduce ourselves to your community:

THE COMPANY:
National Youth Clubs of America

ADDRESS:
(National Headquarters)
1000 Skokie Boulevard
Wilmette, Illinois 60091

TELEPHONE:
(312) 256-5360 — (800) 323-3745

BANK:
Edens Plaza State Bank, Wilmette, Ill.

OFFICER:
President — J. K. Fletcher

CHARTER MEMBERSHIPS:
Chamber of Commerce

MODUS OPERENDI:
Local Chartered Chaptered Members

MERCHANDISE:
Consumables (Candies, Cookies, etc.)

COST:
$1.00 — $2.00 per item.

SALES PROGRAM:

National Youth Clubs of America is a limited profit corporation. It serves a vital and necessary function in the community by providing jobs for youths between the ages of 14 and 17 years.

Traditionally, communities have been guilty of ignoring this age group in their attempts to provide employment for adults over the age of 18 years. Perhaps this may explain why juvenile crime rates have nearly tripled within the last 2 years. As John Drummond once stated, "A buck in a kid's pocket will go a long way towards his self-respect." National Youth Clubs of America seeks to fill this employment gap by providing jobs for these "unemployable" people selling its products on a door-to-door basis. The youths work in crews of five. Each crew is closely supervised by a capable Crew Manager, in many cases, a veteran.

In addition to earned income, the youths compete in a college scholarship program, the scholarships being awarded to the top salesmen of each state.

There is also the intangible asset of character development and training, which we feel direct sales contribute to.

It is the National Youth Clubs of America philosophy that our program is an important and necessary aid in maintaining harmony in the community by employing youths in a constructive, meaningful, and self-promoting light.

THE PURPOSE
OF
THE NATIONAL YOUTH CLUBS OF AMERICA INC.

The National Youth Clubs of America has two aims. We are primarily concerned with giving employment to young people through a program in which they sell various products on a door-to-door basis. Not only are there monetary advantages including nightly and monthly bonuses, but our young people also become acquainted with the people of the community and, in the process, have the opportunity to develop their character through public contact.

There is also an annual scholarship award divided among the top salesmen of the year. This scholarship is used to further their education in their chosen field.

Our second aim is to provide a product worthy of your patronage. When you help one of our youth as he competes for a scholarship award you will avail yourself of a fine product at the same time.

Sincerely,
Judith Fletcher
Judith Fletcher
President

BEST COPY AVAILABLE

FALLIS, TABAK & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

HARRY E. FALLIS, C.P.A.
HERBERT M. TABAK, C.P.A.
HARVEY D. FALLIS, C.P.A.

421 SEVENTH AVENUE, NEW YORK, N.Y. 10001
(212) 736-4018

JUN 7 1971

To the Board of Directors,
Youth Incentives, Inc:

We have examined the balance sheet of Youth Incentives, Inc. (a Washington, D.C. non-profit corporation), as of August 31, 1970, and the related summary of financial activities for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and summary of financial activities, present fairly the assets, liabilities and fund balances of Youth Incentives, Inc., as of August 31, 1970, and its revenue and expenditures for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Fallis, Tabak & Company
Fallis, Tabak & Company

New York, New York
April 30, 1971

YOUTH INCENTIVES, INC.
BALANCE SHEET
AUGUST 31, 1970

ASSETS

Cash in Banks	6,561	
Advances Receivable	350	
Prepaid Expenses and Security Deposits	2,717	
Furniture, Fixtures and Equipment	2,589	
Total Assets		12,217

LIABILITIES AND FUND BALANCES

LIABILITIES	
Accounts Payable and Accrued Expenses	1,539
FUND BALANCES	
General Fund	10,678
Total Liabilities and Fund Balances	12,217

YOUTH INCENTIVES, INC.
SUMMARY OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 1970

REVENUE FROM FUND RAISING			
Candy Sales		764,809	
Cost of fund raising			
Candy Purchases	353,853		
Freight, storage, and distribution	172,951	526,804	
Net Revenue from Fund Raising			238,005
EXPENDITURES			
Program Services:			
Youth Assistance Program	160,030		
Local Activities and Projects	8,763		
Summer Camp Program	10,486		
Charitable Donations	905		
Total Program Services		180,184	
Supporting Services:			
Licenses and Permits	2,144		
Legal and accounting	8,240		
Office rent, telephone, supplies	20,221		
Other Administrative expenditures	16,538		
Total Supporting Services		47,143	
Total Expenditures			227,327
EXCESS OF REVENUE OVER EXPENDITURES			10,678

BEST COPY AVAILABLE

No. FNP-14075

STATE of MISSOURI

JAMES C. KIRKPATRICK, Secretary of State

Corporation Department

Certificate of Authority of a Foreign Not for Profit Corporation

WHEREAS, YOUTH INCENTIVE, INC. incorporated under the laws of the State of District of Columbia for a term of perpetual years, has filed in the office of the Secretary of State, duly authenticated evidence of its incorporation, as provided by law, and has, in all respects, complied with the requirements of law governing Foreign Not for Profit Corporations;

NOW, THEREFORE, I, JAMES C. KIRKPATRICK, Secretary of State of the State of Missouri, by virtue of the authority vested in me, do hereby certify that said YOUTH INCENTIVE, INC. with its initial registered office in Missouri located at 314 North Broadway, St. Louis, Missouri is from the date hereof duly authorized to conduct affairs in the State of Missouri, exclusively for the purpose See Application

and is entitled to all the rights and privileges granted to Foreign Not For Profit Corporations under the laws of this State.

IN TESTIMONY WHEREOF, I hereunto set my hand and affix the GREAT SEAL of the State of Missouri. Done at the City of Jefferson, this day of June 20 A.D., Nineteen Hundred and Seventy-three

Secretary of State

Deputy Secretary of State

State of Missouri . . . Office of Secretary of State
JAMES C. KIRKPATRICK, Secretary of State

APPLICATION FOR CERTIFICATE OF AUTHORITY OF A FOREIGN GENERAL NOT FOR PROFIT CORPORATION

(To be submitted in duplicate by an Attorney)

HONORABLE JAMES C. KIRKPATRICK
SECRETARY OF STATE
STATE OF MISSOURI
JEFFERSON CITY, MISSOURI 65101

Youth Incentive, Inc, corporation organized and existing under and by virtue of the laws of the District of Columbia desiring admission into the State of Missouri, for the purpose of conducting its affairs in said State, hereby makes application for a ______ certificate of authority and submits the following statement pursuant to the "General Not For Profit Corporation Law" of Missouri.

1.—The above corporation was duly incorporated under the laws of the District of Columbia on the 10th day of September, A.D. 1973 for a term of [illegible] years.

2.—The address of the principal office in the State or Country under the laws of which it is organized is: 918 - 16 St N.W. Washington DC

3.—The address of the proposed registered office in the State of Missouri is 314 N. Broadway street in the city of St Louis, Missouri, and the name of its proposed registered agent in this State at such address is: C.T. Corp System

4.—The corporation is admitted or qualified to conduct its affairs in the following states and countries other than Missouri:

5.—The names of its officers and directors and their addresses are as follows:

	NAME	Street and No.	City and State
President	[illegible]	[illegible]	[illegible]
Secretary			
Treasurer	[illegible]	[illegible]	[illegible]
Director	[illegible]	2883 [illegible] St	[illegible]
Director	[illegible]	333 7th St	[illegible] City, Calif
Director	[illegible]	3026 [illegible]	[illegible], Calif
Director			
Director			

6. The purpose or purposes for which it was organized which it proposes to pursue in conducting its affairs in this State are:

(If more than four (4) lines, please furnish three (3) extra copies.)

TO PROVIDE JOBS & ACTIVITIES FOR YOUTHS FROM ECONOMICALLY DEPRIVED AREAS

(OVER)

IN WITNESS WHEREOF, the undersigned corporation has caused this application to be executed in its name by its .... President and its .... Secretary, this 20th day of June, A.D. 1973.

Youth Incentive Inc
(Exact Corporate Title)

By Tom Wade
Its .... President.

(Corporate Seal)

....
Its .... Secretary.

STATE OF New York
COUNTY OF New York } ss.

I, Alan S Marx, a Notary Public, do hereby certify that on the 20 day of June, A.D. 1973 personally appeared before me Tom Wade, and being first duly sworn by me, acknowledged that ..... he signed as his own free act and deed the foregoing document in the capacity therein set forth and declared that the statements therein contained are true.

IN WITNESS WHEREOF, I have hereunto set my hand and seal the day and year before written.

....
Notary Public.

(Notarial Seal)

My Commission expires 3/30/74

BEST COPY AVAILABLE

FORM 1023
(Rev. April 1965)

U.S. TREASURY DEPARTMENT—INTERNAL REVENUE SERVICE

EXEMPTION APPLICATION

(To be made only by a principal officer of the organization claiming exemption)

To be filed in duplicate with the District Director for your District.

For use of organizations applying for exemption under section 501(a) and described in section 501(c)(3) of the Internal Revenue Code, which are organized and operated (**or will operate**) exclusively for one or more of the following purposes (check purpose(s)):

☐ Religious ☐ Charitable ☐ Scientific ☐ Testing for Public Safety
☒ Educational ☐ For the prevention of cruelty to children or animals ☐ Literary

Every organization that claims to be exempt must furnish the information and data specified in duplicate. If any organization fails to submit the information and data required, this application will not be considered on its merits and the organization will be notified accordingly.

This application shall be open to public inspection in accordance with section 6104(a)(1) of the Internal Revenue Code. See separate instructions for Form 1023 to properly answer the questions below.

1a. Full name of organization: Youth Incentives, Inc.
b. Employer identification number: Pending

2. Complete address (number, street, city or town, State and Postal ZIP code): % Fallis, Tabak & Company 421 Seventh Ave., N. Y., N. Y. 10001

3a. Is the organization incorporated? ☒ Yes ☐ No
b. If "Yes," in which State and under which law (General corporation, not for profit, membership, educational, eleemosynary, etc.)? Cite statutory provisions. District of Columbia, Non-Profit Corporation Act

4a. If not incorporated, what is form of organization?
b. Date incorporated or organized: Sept. 18, 1969
c. Month and day on which the annual accounting period ends: August 31

5a. Has organization filed Federal income tax return(s)? ☐ Yes ☒ No
b. If "Yes," form number of return filed and Internal Revenue District where filed.
c. Year(s) filed

6. After July 1, 1950, did the creator of your organization (if a trust), or a contributor to your organization, or a brother or sister (whole or half blood), spouse, ancestor, or lineal descendant of such creator or contributor, or a corporation controlled directly or indirectly by such creator or contributor, enter into any of the transactions (or activities) enumerated below? NOTE. If you have any knowledge or contemplate that you will be a party to any of the transactions (or activities) enumerated in 6a through 6f, check **"planned"** in the applicable block(s) and see instructions.

	Yes	No	Planned		Yes	No	Planned
a. Borrow any part of your income or corpus?		X		d. Purchase any securities or other property from you?		X	
b. Receive any compensation from you?		X		e. Sell any securities or other property to you?		X	
c. Have any part of your services made available to him?		X		f. Receive any of your income or corpus in any other transaction?		X	

	Yes	No
7. Have you issued or do you plan to issue membership, stock, or other certificates evidencing voting power in the organization?		X
8a. Are you the outgrowth or continuation of any form of predecessor(s)?		X
b. Do you have capital stock issued and outstanding?		X
c. Have you made or do you plan to make any distribution of your property to shareholders or members?		X
d. Did you receive or do you expect to receive 10 percent or more of your assets from any organization, group of affiliated organizations (affiliated through stockholding, common ownership, or otherwise), any individual, or members of a family group (brother or sister whether whole or half blood, spouse, ancestor, or lineal descendant)?		X
e. Does any part or will any part of your receipts represent payment for services of any character rendered or to be rendered by you?		X
f. Are you now, have you ever been, or do you plan to be engaged in carrying on propaganda, or otherwise advocating or opposing pending or proposed legislation?		X
g. Do you participate or plan to participate in or intervene in (including the publishing or distributing of statements) any political campaign on behalf of or in opposition to any candidate for public office?		X
h. Have you made or do you plan to make any payments to members or shareholders for services rendered or to be rendered?		X
i. Does any part or do you plan to have any part of your net income inure to the benefit of any private shareholder or individual?		X
j. Are you now or are you planning to be affiliated in any manner with any organization(s)?		X
k. Do you hold or plan to hold 10 percent or more of any class of stock or 10 percent or more of the total combined voting power of stock in any corporation?		X

RECEIVED
AUDIT
NOV . 1969
MANHATTAN
District Director Internal Revenue

BEST COPY AVAILABLE

9. Has any State or any court (including a Court of Probate, Surrogate's Court, etc.) ever declared whether you were or were not organized and operated for charitable, etc., purposes? ☐ Yes ☒ No. If "Yes," attach copies in duplicate of pertinent administrative or judicial decisions.

10. You must attach copies in duplicate of the following:

a. If incorporated, a copy of your articles of incorporation, or if not incorporated, a copy of your constitution, articles of association, declaration of trust, or other document whereby you were created setting forth your aims and purposes, a copy of all amendments thereto, and any changes presently proposed.

b. A copy of your bylaws or other similar code of regulations, all amendments thereto, and any changes presently proposed.

c. A complete statement of assets and liabilities as of the end of each annual accounting period (or as of the date of the filing of this application, if you were in existence for less than a year).

d. A statement of receipts and expenditures for each annual accounting period of operation (or for the period for which you were in existence, if less than a year).

e. A statement which clearly indicates what State statutes or court decisions govern the distribution of assets upon dissolution. (This statement may be omitted if your charter, certificate, or other instrument of organization makes provision for such distribution.)

f. A brief statement of the specific purposes for which you were formed. (Do not quote from or make reference to your articles of incorporation, constitution, articles of association, declaration of trust, or other document whereby you were created for this question.)

g. A statement explaining in detail each fund raising activity and each business enterprise you have engaged in or plan to engage in, accompanied by copies of all agreements, if any, with other parties for the conduct of each fund raising activity or business enterprise.

h. A statement which describes in detail the nature of each of your activities which you have checked on page 1, activities which you sponsor, and proposed activities.

i. A statement which explains fully any specific activities that you have engaged in or sponsored and which have been discontinued. Give dates of commencement and termination and the reasons for discontinuance.

j. A statement which describes the purposes, other than in payment for services rendered or supplies furnished, for which your funds are expended or will be expended.

k. A schedule indicating the name and position of each officer, director, trustee, etc., of the organization and the relationship, if any, by blood, marriage, adoption, or employment, of each such person to the creator of the organization (if a trust), to any person who has made a substantial contribution to the organization, or to a corporation controlled (by ownership of 50 percent or more of voting stock or 50 percent or more of value of all stock), directly or indirectly, by such creator or contributor. The schedule shall also indicate the time devoted to position and compensation (including salary and expense account allowance), if any, of each officer, director, trustee, etc., of the organization.

l. A copy of each lease, if any, in which you are the lessee or lessor of property (real, personal, gas, oil, or mineral) or in which you own an interest under such lease, together with copies of all agreements with other parties for development of the property.

SIGNATURE AND VERIFICATION

Under penalties of perjury, I declare that I have examined this application, including accompanying statements, and to the best of my knowledge and belief it is true, correct, and complete.

Date: 11/4/69

Signature of officer: Jerry Winter

Title: PRES. Chairman, Bd of Trustees

FORM **1023**
(Rev. April 1965)

U.S. TREASURY DEPARTMENT—INTERNAL REVENUE SERVICE

EXEMPTION APPLICATION

(To be made only by a principal officer of the organization claiming exemption)

To be filed in duplicate with the District Director for your District.

For use of organizations applying for exemption under section 501(a) and described in section 501(c)(3) of the Internal Revenue Code, which are organized and **operated** (or will **operate**) exclusively for one or more of the following purposes (check purpose(s)):

☐ Religious ☐ Charitable ☐ Scientific ☐ Testing for Public Safety
☒ Educational ☐ For the prevention of cruelty to children or animals ☐ Literary

Every organization that claims to be exempt must furnish the information and data specified in duplicate. If any organization fails to submit the information and data required, this application will not be considered on its merits and the organization will be notified accordingly.

This application shall be open to public inspection in accordance with section 6104(a)(1) of the Internal Revenue Code. See separate instructions for Form 1023 to properly answer the questions below.

1a. Full name of organization: Youth Incentives of Washington, D. C., Inc.
b. Employer identification number: Pending

2. Complete address (number, street, city or town, State and Postal ZIP code): % Fallis, Tabak & Co., 421 Seventh Ave., N. Y., N. Y. 10001

3a. Is the organization incorporated? ☒ Yes ☐ No
b. If "Yes," in which State and under which law (General corporation, not for profit, membership, educational, eleemosynary, etc.)? Cite statutory provisions. Minnesota, Chapter 317, Minnesota Non Profit Corp. Act

4a. If not incorporated, what is form of organization?
b. Date incorporated or organized: Oct. 22, 1969
c. Month and day on which the annual accounting period ends: August 31

5a. Has organization filed Federal income tax return(s)? ☐ Yes ☒ No
b. If "Yes," form number of return filed and Internal Revenue District where filed.
c. Year(s) filed

6. After July 1, 1950, did the creator of your organization (if a trust), or a contributor to your organization, or a brother or sister (whole or half blood), spouse, ancestor, or lineal descendant of such creator or contributor, or a corporation controlled directly or indirectly by such creator or contributor, enter into any of the transactions (or activities) enumerated below? NOTE: If you have any knowledge or contemplate that you will be a party to any of the transactions (or activities) enumerated in 6a through 6f, check **"planned"** in the applicable block(s) and see instructions.

	Yes	No	Planned		Yes	No	Planned
a. Borrow any part of your income or corpus?		X		d. Purchase any securities or other property from you?		X	
b. Receive any compensation from you?		X		e. Sell any securities or other property to you?		X	
c. Have any part of your services made available to him?		X		f. Receive any of your income or corpus in any other transaction?		X	

	Yes	No
7. Have you issued or do you plan to issue membership, stock, or other certificates evidencing voting power in the organization?		X
8a. Are you the outgrowth or continuation of any form of predecessor(s)?		X
b. Do you have capital stock issued and outstanding?		X
c. Have you made or do you plan to make any distribution of your property to shareholders or members?		X
d. Did you receive or do you expect to rece[illegible] percent or more of your assets from any organization, group of affiliated organizations (affiliated through stockholding, common ownership, or otherwise), any individual, or members of a family group (brother or sister whether whole or half blood, spouse, ancestor, or lineal descendant)?		X
e. Does any part or will any part of your receipts represent payment for services of any character rendered or to be rendered by you?		X
f. Are you now, have you ever been, or do you plan to be engaged in carrying on propaganda, or otherwise advocating or opposing pending or proposed legislation?		X
g. Do you participate or plan to participate in or intervene in (including the publishing or distributing of statements) any political campaign on behalf of or in opposition to any candidate for public office?		X
h. Have you made or do you plan to make any payments to members or shareholders for services rendered or to be rendered?		X
i. Does any part or do you plan to have any part of your net income inure to the benefit of any private shareholder or individual?		X
j. Are you now or are you planning to be affiliated in any manner with any organization(s)?		X
k. Do you hold or plan to hold 10 percent or more of any class of stock or 10 percent or more of the total combined voting power of stock in any corporation?		X

RECEIVED
AUDIT
NOV 6
MANHATTAN
District Director Internal Revenue

BEST COPY AVAILABLE

9. Has any State or any court (including a Court of Probate, Surrogate's Court, etc.) ever declared whether you were or were not organized and operated for charitable, etc., purposes? ☐ Yes ☒ No. If "Yes," attach copies in duplicate of pertinent administrative or judicial decisions.

10. You must attach copies in duplicate of the following:

a. If incorporated, a copy of your articles of incorporation, or if not incorporated, a copy of your constitution, articles of association, declaration of trust, or other document whereby you were created setting forth your aims and purposes, a copy of all amendments thereto, and any changes presently proposed.

b. A copy of your bylaws or other similar code of regulations, all amendments thereto, and any changes presently proposed.

c. A complete statement of assets and liabilities as of the end of each annual accounting period (or as of the date of the filing of this application, if you were in existence for less than a year).

d. A statement of receipts and expenditures for each annual accounting period of operation (or for the period for which you were in existence, if less than a year).

e. A statement which clearly indicates what State statutes or court decisions govern the distribution of assets upon dissolution. (This statement may be omitted if your charter, certificate, or other instrument of organization makes provision for such distribution.)

f. A brief statement of the specific purposes for which you were formed. (Do not quote from or make reference to your articles of incorporation, constitution, articles of association, declaration of trust, or other document whereby you were created for this question.)

g. A statement explaining in detail each fund-raising activity and each business enterprise you have engaged in or plan to engage in, accompanied by copies of all agreements, if any, with other parties for the conduct of each fund-raising activity or business enterprise.

h. A statement which describes in detail the nature of each of your activities which you have checked on page 1, activities which you sponsor, and proposed activities.

i. A statement which explains fully any specific activities that you have engaged in or sponsored and which have been discontinued. Give dates of commencement and termination and the reasons for discontinuance.

j. A statement which describes the purposes, other than in payment for services rendered or supplies furnished, for which your funds are expended or will be expended.

k. A schedule indicating the name and position of each officer, director, trustee, etc., of the organization and the relationship, if any, by blood, marriage, adoption, or employment, of each such person to the creator of the organization (if a trust), to any person who has made a substantial contribution to the organization, or to a corporation controlled (by ownership of 50 percent or more of voting stock or 50 percent or more of value of all stock), directly or indirectly, by such creator or contributor. The schedule shall also indicate the time devoted to position and compensation (including salary and expense account allowance), if any, of each officer, director, trustee, etc., of the organization.

l. A copy of each lease, if any, in which you are the lessee or lessor of property (real, personal, gas, oil, or mineral) or in which you own an interest under such lease, together with copies of all agreements with other parties for development of the property.

SIGNATURE AND VERIFICATION

Under penalties of perjury, I declare that I have examined this application, including accompanying statements, and to the best of my knowledge and belief it is true, correct, and complete.

SEC.

11/4/69		Chairman, Bd. of Trustees
Date	Signature of officer	Title

U.S. GOVERNMENT PRINTING OFFICE : 1968—O-764-147

FORM 1023 (REV. 4-68)

BEST COPY AVAILABLE

YOUTH INCENTIVES, INC.
SUMMARY OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 1970

REVENUE FROM FUND RAISING			
Candy Sales		764,809	
Cost of fund raising			
Candy Purchases	353,853		
Freight, storage, and distribution	172,951	526,804	
Net Revenue from Fund Raising			238,005
EXPENDITURES			
Program Services:			
Youth Assistance Program	160,030		
Local Activities and Projects	8,763		
Summer Camp Program	10,486		
Charitable Donations	905		
Total Program Services		180,184	
Supporting Services:			
Licenses and Permits	2,144		
Legal and accounting	8,240		
Office rent, telephone, supplies	20,221		
Other Administrative expenditures	16,538		
Total Supporting Services		47,143	
Total Expenditures			227,327
EXCESS OF REVENUE OVER EXPENDITURES			10,678

YOUTH INCENTIVES, INC.
BALANCE SHEET
AUGUST 31, 1970

ASSETS

Cash in Banks	6,561	
Advances Receivable	350	
Prepaid Expenses and Security Deposits	2,717	
Furniture, Fixtures and Equipment	2,589	
Total Assets		12,217

LIABILITIES AND FUND BALANCES

LIABILITIES	
Accounts Payable and Accrued Expenses	1,539
FUND BALANCES	
General Fund	10,678
Total Liabilities and Fund Balances	12,217

BEST COPY AVAILABLE

STATE OF MINNESOTA   DISTRICT COURT

COUNTY OF HENNEPIN   SECOND JUDICIAL DISTRICT

State of Minnesota, by Warren Spannaus, its Attorney General,

Plaintiff,

vs.

SUMMONS

Youth Incentives of Washington, D. C., Inc., a Minnesota non-profit corporation,

Defendant.

THE STATE OF MINNESOTA TO THE ABOVE NAMED DEFENDANT:

You are hereby summoned and required to serve upon plaintiff's attorney an answer to the complaint which is hereby served on you, within twenty (20) days after service of this summons upon you, exclusive of the day of service. If you fail to do so, judgment by default will be taken against you for the relief demanded in the complaint.

Dated: 21 day of October, 1972.

STATE OF MINNESOTA

WARREN SPANNAUS
Attorney General

Curtis D. Forslund
CURTIS D. FORSLUND
Solicitor General

ROBERT W. HERR
Assistant Attorney General

Attorneys for Plaintiff
101 Capitol Square Building
Saint Paul, Minnesota 55101
Telephone: (612) 296-2306

STATE OF MINNESOTA — DISTRICT COURT

COUNTY OF HENNEPIN — FOURTH JUDICIAL DISTRICT

State of Minnesota, by
its Attorney General,
Warren Spannaus

Plaintiff,

vs.

Youth Incentives of Washington,
D. C., Inc., a Minnesota non-profit corporation,

Defendant.

COMPLAINT AND PETITION
FOR TERMINATION OF
CORPORATE EXISTENCE

Plaintiff, for its claim for relief herein, states, alleges and petitions as follows:

1. This is an action for a declaratory judgment and injunctive relief. Plaintiff contends defendant's business practices in the State of Minnesota violate the following laws:

A. Minnesota Non-Profit Corporation Act, M.S.A. § 317.01 et seq.; and

B. Prevention of Consumer Fraud, M.S.A. § 325.79 subd. 1.

COUNT ONE

2. Defendant purports to be a corporation organized under M.S.A. ch. 317.

3. The registered office of defendant is stated in its articles of incorporation to be C T Corporation System, Inc., 405 Second Avenue South, Minneapolis, Minnesota.

4. Although holding itself out as a domestic corporation,

defendant has failed to comply with the requirements of M.S.A. § 317.01 et seq. as follows:

A. Defendant has never maintained the C T Corporation System, Inc., 405 Second Avenue South, Minneapolis, Minnesota as its registered agent.

B. Defendant has changed the location of its registered agent without filing with the Minnesota Secretary of State a certificate of change of location.

C. Defendant has failed to answer interrogatories served upon it by plaintiff in July and August 1972 pursuant to M.S.A. § 317.29.

D. The business purpose of the defendant as stated in its articles of incorporation is

> "To improve the environment of underprivileged and alienated peoples afflicted by poverty. To create the desire for self-improvement in alienated and underprivileged people. To foster a desire for higher education in alienated and underprivileged people. To help underprivileged and alienated people obtain the financial assistance necessary to obtain a higher education. To help underprivileged and alienated people better themselves and intergrate [sic] their activities into the main stream of community life."

The actual business purposes of defendant is to market and sell candy and other merchandise at a profit, and defendant has conducted its business for profit in excess of and in abuse of the authority and powers conferred upon it by M.S.A. § 317.01 et seq.

E. In its public solicitation campaign defendant has hired large numbers of children under the age of sixteen to go door-to-door in residential neighborhoods selling boxes of candy representing to buyers that all of the profits from the sales of the candy go toward the support of non-profit children's programs. Defendant has failed to use the proceeds or property solicited for the purpose represented.

5. The public interest requires termination of the defendant and liquidation of its corporate affairs.

COUNT II

6. Realleges the allegations contained in paragraphs 1 through 4 of count one of this complaint.

7. Defendant in connection with the sale of candy and other merchandise has employed various false, misleading and deceptive representations, including but not limited to the statements and representations alleged in paragraph 4 of this complaint, with the intent that others rely thereon, in violation of M.S.A. § 325.79, subd. 1.

WHEREFORE, plaintiff demands judgment and decree of this court as follows:

I. Ordering liquidation of the corporate affairs of defendant pursuant to M.S.A. § 317.62, subd. 4.

II. Ordering termination of the corporate existence of defendant pursuant to M.S.A. § 317.62, subd. 5.

III. Adjudging defendant liable to the State of Minnesota in the amount of $300 for violation of M.S.A. § 317.19, subd.1 and $300 for violation of M.S.A. § 317.19, subd. 2.

IV. Temporarily and permanently restraining and enjoining defendant, its officers, directors, agents, successors, assigns and affiliates, and any and all other persons or parties acting in concert or participation with it from:

A. Transacting any business for profit in the State of Minnesota as a Minnesota corporation until it complies with the provisions of M.S.A. § 301.01, et seq.

B. Transacting business for profit while franchised as a non-profit corporation pursuant to M.S.A. § 317.01, et seq.

C. Directly or indirectly using or employing any fraud, false pretense, false promise, misrepresentation, misleading statement or deceptive practice, with intent that others rely thereon, including, without limiting the generality of the foregoing, the practices and statements alleged in this complaint.

V. Granting such other, further or different relief, whether legal or equitable, as this Court deems just and proper, together with judgment against defendant for the costs and disbursements and reasonable attorneys fees incurred on behalf of the plaintiff herein.

Dated: October 27, 1972.

STATE OF MINNESOTA

WARREN SPANNAUS
Attorney General

/s/ Curtis D. Forslund
CURTIS D. FORSLUND
Solicitor General

Robert W. Herr
ROBERT W. HERR
Assistant Attorney General

Attorneys for Plaintiff
101 Capitol Square Building
Saint Paul, Minnesota 55101
Telephone: (612) 296-2306

BEST COPY AVAILABLE

STATE OF MINNESOTA
COUNTY OF HENNEPIN

DISTRICT COURT
FOURTH JUDICIAL DISTRICT

State of Minnesota, by
its Attorney General,
Warren Spannaus,

Plaintiff,

vs.

Youth Incentives of Washington,
D. C., Inc., a Minnesota
non-profit corporation,

Defendant.

MOTION FOR PERMANENT
INJUNCTION, RECOVERY
OF STATUTORY PENALTIES

Upon the annexed affidavit of Mr. Robert W. Herr and the pleadings and file herein, Plaintiff moves, pursuant to Rule 55 of the Rules of Civil Procedure for the District Courts of Minnesota, for a judgment by default:

A. Permanently enjoining and restraining said Youth Incentives of Washington, D. C., Inc., its officers, directors, agents, successors, assigns and affiliates and any and all other persons or parties acting in concert or participation with it from the following acts:

1. Directly or indirectly using or employing any fraud, false pretense, false promise, misrepresentation, misleading statement or deceptive practice, with intent that others rely thereon, including, without limiting the generality of the foregoing, the practices and statements alleged in the Complaint filed in this action;
2. Transacting any business for profit in the State of Minnesota as a Minnesota corporation until it complies

with the provisions of M.S.A. § 301.01, *et seq*; and

3. Transacting business for profit while franchised as a non-profit corporation pursuant to M.S.A. Section 318.01, *et seq*.

B. Adjudging Defendant liable to the State of Minnesota in the amount of $300 for violation of M.S.A. § 317.19, Subd. 1.

C. Declaring that Defendant has abused and exceeded its rights and privileges as a Minnesota non-profit corporation, and by so doing business, has surrendered its non-profit corporation status in the State of Minnesota.

D. Granting Plaintiff judgment against Defendant for the costs and disbursements incurred on behalf of Plaintiff herein.

Dated: April 9, 1973.

STATE OF MINNESOTA

WARREN SPANNAUS
Attorney General

JONATHAN H. MORGAN
Solicitor General

By ROBERT W. HERR
Assistant Attorney General

Attorneys for Plaintiff
102 State Capitol Building
St, Paul, Minnesota 55155
Phone: (612) 296-2306

STATE OF MINNESOTA DISTRICT COURT

COUNTY OF HENNEPIN FOURTH ~~SECOND~~ JUDICIAL DISTRICT

State of Minnesota, by
Warren Spannaus, its
Attorney General,

Plaintiff,

vs.

Youth Incentives of Washington,
D. C., Inc., a Minnesota
non-profit corporation,

Defendant.

AFFIDAVIT OF NO
ANSWER, IDENTIFICATION AND
AMOUNT DUE

Robert W. Herr, being first duly sworn upon oath, deposes and says:

1. My name is Robert W. Herr and I am one of the attorneys for the Plaintiff in the above-entitled action.

2. The Summons and Complaint in said action have been duly served on the Defendant at the Office of the Minnesota Secretary of State, 180 State Office Building, St. Paul, Minnesota 55155 pursuant to M.S.A. Section 543.08 Subd. 1(3) following a "Not Found" return of service by the Sheriff of Hennepin County.

3. The Summons and Complaint and Affidavit of Service thereof have been duly filed in the Office of the Clerk of the above-named Court.

4. The time allowed by law and specified in said Summons for Defendant to answer the Complaint in the above-entitled action has elapsed and no answer or other responsive pleading has been received by or otherwise served upon Plaintiff or upon Plaintiff's attorney.

5. Defendant has not otherwise defended in the action and, accordingly, said Defendant is in default herein.

7. The full name of Defendant is Youth Incentives of Washington, D. C., Inc., a Minnesota non-profit corporation, Minnesota address unknown.

7. Defendant transacted business in Minnesota from October 16, 1969 until October 1972 in violation of M.S.A. § 317.91, Subd. 1. Accordingly, Defendant is liable to the State of Minnesota for a penalty of Three Hundred Dollars ($300.00).

8. The following items of costs and disbursements by and on behalf of the Plaintiff in said action are just, true and correct and have been necessarily paid and incurred by Plaintiff in said action:

Costs allowed by statute	$ 10.00
Fees of Clerk of Court	$ 15.00
Service - Sheriff of Hennepin County	$ 1.30
Secretary of State	$ 5.00
TOTAL	$ 21.30

9. I have read the foregoing affidavit consisting of two typewritten pages, know the contents thereof and the same is true of my own knowledge.

Further Affiant Sayeth Not.

Subscribed and Sworn to Before me this ____ day of ________, 1973.

NOTARY PUBLIC RAMSEY COUNTY
STATE OF MINNESOTA

ROBERT W. HERR

The above bill of costs and disbursements taxed and allowed at $ ____________ this ____ day of ____________, 1973.

CLERK

COUNTY OF HENNEPIN

FOURTH JUDICIAL DISTRICT

State of Minnesota, by
its Attorney General,
Warren Spannaus,

Plaintiff,

vs.

Youth Incentives of Washington,
D. C., Inc., a Minnesota
non-profit corporation,

Defendant.

COURT FILE NO. 690684

FINDINGS OF FACT,
CONCLUSIONS OF LAW, AND
ORDER FOR JUDGMENT

The above entitled matter came on for hearing before this Court on April 23, 1973, at a special term thereof.

Plaintiff appeared by Robert W. Herr, Assistant Attorney General. It appeared from the pleadings and file herein that Defendant Youth Incentives of Washington, D. C., Inc. has failed to answer the Complaint in this action within the time provided by law and by the Rules of this Court.

The Court being duly advised in the premises, makes the following Findings of Fact, Conclusions of Law and Order for Judgment:

FINDINGS OF FACT

1. Defendant Youth Incentives of Washington, D. C., Inc. (hereinafter "Defendant") was incorporated as a Minnesota non-profit corporation in October 1969.

2. Although holding itself out as a domestic corporation from October 1969 to this date, Defendant has never maintained a registered office in Minnesota.

3. The principal business purpose of Defendant from the time of its incorporation to present was to sell candy and other merchandise at a profit.

4. Defendant in connection with the sale of candy and other merchandise, employed various false, misleading and deceptive representations, including but not limited to representing that profits from the sale of candy and merchandise go toward the support of non-profit children's programs.

5. The false, misleading and deceptive representations employed by Defendant was intended to induce Minnesota consumers to purchase merchandise from Defendant.

CONCLUSIONS OF LAW

1. By transacting business as a Minnesota corporation without maintaining a registered office in Minnesota, Defendant is liable to the State of Minnesota for a penalty in the sum of $300.00 pursuant to M.S.A. § 317.19, Subd. 4.

2. By transacting business for profit while incorporated as a non-profit corporation, Defendant has exceeded and abused its rights and privileges as a Minnesota non-profit corporation, and by so doing business, has surrendered its non-profit corporation status in the State of Minnesota.

3. Plaintiff is entitled to the injunctive relief requested herein.

ORDER FOR JUDGMENT

1. Defendant, its officers, directors, agents, successors, assigns and affiliates and any and all other persons or parties

acting in concert or participation with it, be and the same hereby are permanently enjoined from:

A. Directly or indirectly using or employing any fraud, false pretense, false promise, misrepresentation, misleading statement or deceptive practice, with intent that others rely thereon, including, without limiting the generality of the foregoing, the practices and statements alleged in the Complaint filed in this action;

B. Transacting any business for profit in the State of Minnesota as a Minnesota corporation until it complies with the provisions of M.S.A. § 301.01, *et seq*; and

C. Transacting business for profit while franchised as a non-profit corporation pursuant to M.S.A. § 318.01, *et seq*.

2. Defendant shall pay to the State of Minnesota pursuant to M.S.A. § 317.19, Subd. 4, the sum of $300.00 as a penalty for transacting business in the State of Minnesota as a Minnesota non-profit corporation without maintaining a registered office in this State.

3. The Minnesota non-profit certificate of incorporation granted to Defendant shall be cancelled, upon service of this Order upon the Minnesota Secretary of State.

4. Plaintiff is awarded its costs herein.

LET JUDGMENT BE ENTERED ACCORDINGLY

Dated: 4/23/73

s/ Donald T. Barbeau
DISTRICT JUDGE

RECEIVED
APR 3 0
ATTORNEY GENERAL

STATE OF MINNESOTA 690684 DISTRICT COURT
COUNTY OF HENNEPIN FOURTH JUDICIAL DISTRICT

State of Minnesota, by its
Attorney General, Warren Spannaus,
Plaintiff,
vs
Youth Incentives of Washington,
D. C., Inc., a Minnesota non-profit corporation,
Defendant.

JUDGMENT
April 24, 1973

The above entitled action having been regularly placed upon the calendar of the above named Court for the September A. D. 1972 General Term thereof, came on for trial on the 23rd day of April A. D. 1973, and the Court, after hearing the evidence adduced at said trial and being fully advised in the premises, did on the 23rd day of April A. D. 1973, duly make and file its findings and order for judgment herein.

Now, pursuant to said order and on motion of Robert W. Herr, Assistant Attorney General, attorney for plaintiff, it is hereby adjudged and decreed:

1. That defendant, its officers, directors, agents, successors, assigns and affiliates and any and all other persons or parties acting in concert or participation with it, be and the same hereby are permanently enjoined from:

A. Directly or indirectly using or employing any fraud, false pretense, false promise, misrepresentation, misleading statement or deceptive practice, with intent that others rely thereon, including, without limiting the generality of the foregoing, the practices and statements alleged in the Complaint filed in this action;

B. Transacting any business for profit in the State of Minnesota as a Minnesota corporation until it complies with the provisions of M.S.A.§ 301.01, *et seq*; and

C. Transacting business for profit while franchised as a non-profit corporation pursuant to M.S.A.§ 318.01, *et seq*.

2. That defendant shall pay to the State of Minnesota pursuant to M.S.A.§ 317.19, Subd. 4, the sum of Three hundred ($300.00) Dollars, as a penalty for transacting business in the State of Minnesota as a Minnesota non-profit corporation without maintaining a registered office in this State.

-1-

BEST COPY AVAILABLE

3. That the Minnesota non-profit certificate of incorporation granted to defendant shall be cancelled, upon service of this Order upon the Minnesota Secretary of State.

4. That plaintiff have and recover of the defendant the sum of Twenty-six and 30/100 Dollars, as and for costs and disbursements as taxed and allowed herein.

$ 26.30

BY THE COURT

GERALD R. NELSON
Clerk of District Court

By D.V. Elliott Deputy

JUDGMENT ROLL
Docketed: 8:50 am
Filed April 24, 1973
GERALD R. NELSON, Clerk
By D.V. Elliott Deputy

STATE OF MINNESOTA, COUNTY OF HENNEPIN
Certified to be a true and correct copy of the original on file and of record in my office.
APR 26 1973
GERALD R. NELSON, Clerk of District Court
BY ______ Deputy

RECEIVED BY MAIL BY HAND
MAY 12 1972
CHARITY FRAUDS BUREAU
NEW YORK CITY OFFICE

COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, SS: EQ. NO.

ROBERT H. QUINN
Attorney General
Plaintiff

v

YOUTH INCENTIVE, INC.,
A DISTRICT OF COLUMBIA CORPORATION;
INTERNATIONAL CANDY AND FOOD
PRODUCTS, INC., A NEW YORK
CORPORATION; GERALD WINTERS AND
JOHN M. CARPENTER,
Defendants

BILL OF COMPLAINT

TO THE HONORABLE, THE JUSTICES OF THE SUPERIOR COURT SITTING IN AND FOR THE COUNTY OF SUFFOLK:

1. Your plaintiff, Robert H. Quinn, is the duly elected and qualified Attorney General of the Commonwealth of Massachusetts having his office in Boston, in the County of Suffolk, and within the jurisdiction of this Honorable Court.

2. The defendant, Youth Incentive, Inc., is a corporation purportedly organized under the laws of the District of Columbia, and whose present local address is 138 Tremont Street, Brighton, Massachusetts.

3. The defendant, International Candy and Food Products, Inc. is a corporation purportedly organized under the laws of the State of New York, having its principal place of business in Farmingdale, New York, 11735.

4. The defendant, Gerald Winters, whose known address in Levittown, New York, is chairman of the Board of International Candy and Food Products, Inc.

5. The defendant, John M. Carpenter, whose known addresses are 1193 Commonwealth Avenue, Boston, and 138 Tremont Street, Brighton, Massachusetts is local agent for Youth Incentive, Inc.

6. This is a bill in equity seeking to enjoin a public nuisance and for other equitable relief as will more fully appear hereinafter.

7. The defendants, Youth Incentive, Inc., and International Candy and Food Products, Inc., have never filed with the Division of Public Charities in the Department of the Attorney General to obtain a Certificate to Solicit Contributions from the Public under G.L. Ch. 68, §§18-31.

8. The defendants, Youth Incentive, Inc., and International Candy and Food Products, Inc., have also failed to file with the Division of Public Charities in the Department of the Attorney General prior to raising funds in the Commonwealth, copies of their charters, articles or certificates of incorporation as required by G.L. Ch. 12, §8E.

9. As stated in the Articles of Organization of Youth Inventive, Inc., the purpose of Youth Incentive, Inc., was "to improve the environment of underprivileged and alientated peoples afflicted by poverty; to create the desire for self-improvement in alienated and underprivileged people; to foster a desire for higher education in alienated and underprivileged people; to help underprivileged and alienated people obtain the financial assistance necessary to obtain a higher education; and to help under- [illegible]

and alienated people better themselves and integrate their activities into the mainstream of community life.

10. On or before September 1, 1971, the defendants acting either by themselves or through their agents and employees, commenced a public solicitation campaign allegedly, according to the literature handed out by the defendants, to raise monies to sponsor "job programs, recreational activities, and social activities for young people, especially those from economically and socially deprived backgrounds."

11. In their solicitation campaign, the defendants acting either through themselves or through their agents have hired large numbers of children under the age of sixteen from minority groups to go door to door in residential neighborhoods selling boxes of candy at $1.50 per box representing to the buyers that all of the profits from the sales of the candy will go toward the support of charitable programs for young people from economically and socially deprived backgrounds.

12. On December 1, 1971, a supervisory employee of Youth Incentive, Inc. and International Candy and Food Products, Inc. gave a voluntary statement to State Police Detective Lieutenants Albert J. Daly and Thomas Castles in which he stated that the youths selling the candy receive thirty-five cents per box for each box sold, the driver is paid thirty cents per box for each box sold, and that the remainder of the money is kept by the defendants and persons associated with them for their own personal gain and is not used for charitable purposes as claimed by the defendants.

He further stated that the children hired to sell the candy door to door by the defendants themselves or by their agents and employees are under the age of sixteen and in some cases even under the age of twelve and that these children are hired in violation of G.L. Ch. 149, §§69, 70, 71, 72, 73, 86, 87, 90, 91, 95, 96 and 97 which require that children under the age of sixteen must obtain educational certificates and employment permits and must wear an issued badge in connection with the work for which they were employed by the defendants and which regulate the time and conditions of such employment.

13. On February 14, 1972, a William Golden, 13 Thorndike Street, Belmont, Massachusetts reported to Assistant Attorney General James J. Kelleher, Director, Division of Public Charities, that youths and accompanying adults with trucks were soliciting on behalf of Youth Incentive, Inc. in the Belmont-Arlington area.

Mr. Golden stated that the young negro boy who solicited him said the money would be used to build a community cent in Dorchester.

14. On April 3, 1972, a Thomas Reynolds of 11 Tarlin Street, Everett, Massachusetts reported to State Police Lieutenant Thomas Castles that a nine year old boy had solicited him and was soliciting and selling door to door on behalf of Youth Incentive, Inc. on the morning of April 1, 1972.

15. The defendants have since September 1, 1971 and intend to continue to make solicitations as are referred to in paragraphs 13 through 14, supra. The defendants' offices at 138 Tremont Street, Brighton, Massachusetts are being used for the purposes of solicitation as described supra.

16. The defendants have not and do not intend to utilize the monies raised on behalf of Youth Incentive, Inc. for charitable purposes.

17. The actions of the defendants and their agents and employees constitute fraudulent representations, deceit and the obtaining of monies under false pretences and are also in violation of G.L. Ch. 149, which regulates the employment of children. Such actions constitute a public nuisance.

18. Your plaintiff has no adequate and complete remedy at law.

WHEREFORE, your plaintiff prays:

(1) That a temporary restraining order issue restraining the defendants and their agents and employees from further solicitations and sales within this Commonwealth or for any other purpose relating to Youth Incentive, Inc. and from disposing of, withdrawing or removing from the Commonwealth any monies in their hands received as a result of such solicitations and sales.

(2) That an order of notice issue directing the defendants to appear before the Court, and that, upon return of the order of notice, the Court order speedy completion of the pleadings.

(3) That, upon return of the order of notice, the Court issue a preliminary injunction restraining the defendants and their agents and employees from further soliciting and selling within this Commonwealth on behalf of Youth Incentive, Inc. or for any other purpose and from disposing of, withdrawing or removing from the Commonwealth any monies in their hands received as a result of such solicitation and sales.

(4) That the Court order notice to all interested persons who have been solicited by the defendants so that they may appear and assert their claims.

(5) That, following a determination of this bill of complaint, the Court declare that the practices of the defendants and their agents and employees in soliciting contributions and selling merchandise within this Commonwealth for a charitable purpose or for any other purpose relating to Youth Incentive, Inc. is a public nuisance.

(6) That, following a determination of this bill of complaint, the Court issue a permanent injunction restraining the defendants and their agents and employees from further soliciting and selling within this Commonwealth for charitable purposes or for any other purpose relating to Youth Incentive, Inc.

(7) That, following a determination of this bill of complaint, the Court enter a decree ordering distribution of the monies in the hands of the defendants to the persons who have appeared and proved their claims as provided in prayer 4, or, if said monies are insufficient to satisfy all claims in full, that said distribution be ordered pro rata.

(8) That the Court order such other and further relief as may be meet and just.

ROBERT H. QUINN,
Attorney General
By his Attorney,

[illegible] H. MAYO, [illegible]
[illegible]

VERIFICATION

SUFFOLK, SS: APRIL 6, 1972

THOMAS F. CASTLES, being first duly sworn deposes and says that he is a Detective Lieutenant Inspector of the Massachusetts State Police and is assigned to the Criminal Division of the Department of the Attorney General, that he has read the foregoing bill of complaint, that the facts stated therein are true to the best of his knowledge and belief, and that as to those statements that are based on information and belief, he believes them to be true.

Thomas F. Castles
THOMAS F. CASTLES

Sworn to and subscribed before me:

Notary Public, Commonwealth of Massachusetts

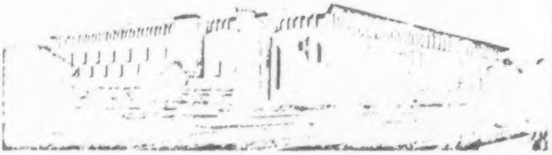
My commission expires April 15, 1977.

BEST COPY AVAILABLE

Mr. Robert Young

PALM BEACH COUNTY

BOARD OF COUNTY COMMISSIONERS
LAKE LYTAL CHAIRMAN
DIST. NO. 2 WEST PALM BEACH
E. W. BUD WEAVER VICE CHAIRMAN
DIST. NO. 5 LAKE HARBOR
ROBERT F. CULPEPPER
DIST. NO. 1 JUPITER
ROBERT E. JOHNSON
DIST. NO. 3 LAKE WORTH
GEORGE V. WARREN
DIST. NO. 4 BOYNTON BEACH



POST OFFICE BOX 1989 • WEST PALM BEACH FLORIDA 33401 • PHONE (305) 655-5200

ALICE C. SKAGGS DIRECTOR
EXTENSION 566

DEAN J. ROSENBACH
CONSUMER ADVOCATE

OFFICE OF CONSUMER AFFAIRS
301 NORTH OLIVE AVENUE
WEST PALM BEACH, FLORIDA 33401

INVESTIGATORS
A. RAY HOWARD
MARILYN BEUTTENMULLER
EDWARD M. LEEDS

March 27, 1973

Mr. Jim Young, Consumer Advisor
Office of the Governor
The Capitol
Tallahassee, Florida 32304

Re: Investigation of Intercity Youth Corp

On Tuesday, March 20, at approximately 4:30 p. m., a number of calls were received by this office both as complaints and inquiries regarding a group of black youngsters ages 9 through 12, who were canvassing the area of Northwood Avenue business section selling cookies and candies. Their sales pitch included the presenting of a printed document with the name "Intercity Youth Corp" at the top and in the center showing that this was "a non-charitable" organization. However, their sales pitch included information that this company would use part of the funds gained from the sale of the candy to afford and extend benefits to underprivileged children, i.e., trips to Disney World, Lion Country Safari, etc.

Because many of the merchants were concerned for the safety and welfare of these children as they excitedly ran across roads, plus the fact that the card or paper presented (copy of which is attached) showed a Ft. Lauderdale number, making the merchants aware that these were not ordinary local school children selling candies and cookies as volunteers for their schools or athletic purposes, I phoned the West Palm Beach city police requesting their assistance in looking into the matter. Meanwhile, personally knowing one of the merchants on Northwood Avenue I phoned him to ask his assistance in acquiring a license tag of the car belonging to the person that I felt certain was supervising this group of children in their activities.

At 5:15 p. m. because I knew that the merchant could not call me back because the county courthouse switchboard would be closed, I rode to Northwood Avenue to see the merchant personally. He was unable to find a supervisor of Intercity Youth Corp and the car involved as he had gone north on Dixie to seek it out. As I came south on Dixie from Northwood Avenue I saw 5 or 6 small girls and boys running to and from a car parked in a parking lot one block south of Northwood Avenue on North Dixie Highway, with paper bags which obviously contained merchandise. At the same time I noted a police motorcycle at this car and the officer talking to the owner of the car who was standing at his trunk with the lid open clearly showing supplies of candies and cookies inside the trunk.

I proceeded to my home, feeling confident that the police would handle this situation in their own manner. At 8:00 p.m. Sgt. Andy Anderson, West Palm Beach Police Department, phoned my home and advised me that one Gary Brown of 4654 Myla Lane, West Palm Beach, was indeed the supervisor of this group of children. I was then transferred to Police Sgt. Kushel (West Palm Beach Police) who was at that time still talking with Mr. Brown. Sgt. Kushel advised that Mr. Brown did show him a copy of a Palm Beach County Occupational License issued to one David Childers of the same address. Mr. Brown contended that Intercity Youth Corp was a Florida corporation and did have a Florida State license. They did not, however, have any municipal license because they claimed that these were unnecessary. On Wednesday, March 21, I phoned the Florida Department of Commerce, Unemployment Compensation Office, and spoke with Mr. E. Kash Salyer to inquire as to the extent of child labor laws. I was informed at that time that unlike those school children, who on a volunteer basis sold candies and cookies (such as the Girl Scouts) for their schools' activities, these children, as learned through information from Sgt. Kushel, were employed and earning 30¢ per sale on the $1.50 item, 20¢ was being paid the supervisor, and the $1.00 was being sent to the company in Ft. Lauderdale. Also, unlike the volunteer school children whose schools and they had been certified by the Child Labor Laws, these children in question did not have school certificates nor did their employer carry workmans compensation for them. At the time of this conversation Mr. Salyer had not done further research in the matter. On the evening of March 21 Mr. Salyer did contact Gary Brown at his home and advise him of his violation of the Child Labor Laws in this matter. Mr. Salyer also issued a citation to Mr. Brown and further advised him of the necessary procedures and documents needed if Mr. Brown were to continue in this course of selling.

I was informed by Mr. Salyer on Thursday, March 22, that upon further investigation into the Child Labor Laws that it was clearly stipulated that no child under 14 years of age would be permitted to participate in this type of selling.

On Wednesday, March 21, I also phoned the State Department and spoke to Mr. Robert Green in Coral Gables concerning the matter of Intercity Youth Corp being registered under the Charitable Funds Act, because I realized that in spite of the fact that this firm stated in writing that they were "non-charitable", they were none the less in violation of the Charitable Funds Act by having the children represent that part of these funds were being used for their purported trips and recreation for said children.

Mr. Green informed me that Intercity Youth Corp was merely a new name, one of many name changes, for the "Youth Enrichment, Youth Advancement", etc. firms that had been charged in Dade County in 1971 and 1972, but who had never been brought to court, because they had disappeared.

A meeting with Mr. Robert Green, Mr. E. Kash Salyer, and Assistant County Attorney Alan Ciklin and this writer was held on Thursday, March 22, beginning at 10:00 a.m. in this office. Mr. Green advised at the onset that Intercity Youth Corp was in violation of the Charitable Funds Act; Mr. Salyer advised that he had cited Mr. Gary Brown for being in violation of the child labor laws; and after a lengthy conference Attorney Ciklin, convinced from the preponderance of evidence contained in an investigative file that had been accrued by Mr. Green in the pursuit of the duties of his office extending from 1969 to the present time, and due to the fact that there is little if any doubt that the principals involved in Intercity Youth Corp are indeed the principals of the former Youth Incentive Board of Directors; and in view of the serious potential and probability of this company transporting children from one city to another and one county to another for the purpose of making these sales (proof of which was provided to the West Palm Beach police by one of the children's mothers who phoned to say that on Wednesday, March 22, her child while working for this firm had been transported to Ft. Pierce in St. Lucie County and was not returned to his home until after 11:30 p.m.); and in view of the possibility of any of these children being hurt, assaulted or maligned while performing these selling duties, Attorney Ciklin advised that the writer contact the West Palm Beach Police Department, and the Palm Beach County Sheriff's Department and request them to send a representative to this office for a group conference.

Sgt. Winifred Moree of the West Palm Beach Police Department and Sgt. McCants of the Palm Beach County Sheriff's Department did come to this office and a conference was held in their presence with Mr. Lopez, Investigator of the State Attorney's office, Mr. E. Kash Salyer, Mr. Robert Green, and the writer in attendance.

As the facts from the evidence evolved it was decided that all police departments in Palm Beach County should be notified; that Mr. Salyer would advise all principals as to their requirements to be in compliance with the child labor laws, and that a thorough in-depth investigation would be conducted by all parties.

It was further advised by the investigator from the State Attorney s office that since Palm Beach County and the State Department would seek the assistance in this matter of Dade and Broward Counties, since Intercity Youth Corp is known to be operating in all three counties, that the Florida Law Enforcement Bureau be contacted and a request made to them for their assistance in coordinating this effort since there is concrete evidence that this firm operates as a part of organized crime in the United States, and that they are operating in 12 to 15 states in the nation and in 7 Florida Counties, and that from information received from a former supervisor there is evidence that $1, 200, 000. was earned in Dade County alone during 1972.

There is also evidence that a "torch job" had been committed in relation to this operation, in Dade County in 1971 followed by the murder of the individual, in New York City, who had committed the torch job. All of the aforementioned evidence is on file in Mr. Robert Green s office of the State Department.

In view of all of the above stated, the writer and Mr. Robert Green agreed that one of the best deterrents in this matter is the limelight of publicity; therefore, I did arrange for Mr. Green to appear on Channel 12 television to publicly advise the merchants and all Palm Beach Countians and especially the parents of the children involved, of this situation, on Thursday, March 22, and advised all parties having questions to phone Palm Beach County Sheriff s Department, their local police department, or the Office of Consumer Affairs.

Almost immediately following the telecast Deputy Sheriff Muldreen received many calls from the viewing public informing him of many things including the fact that Intercity Youth Corp supervisor David Childers, whose mailing address is 3913 West Sixth Street, Ft. Lauderdale, did that evening have a group of black children from West Palm Beach working in a residential section in the City of Lake Worth, Florida. It was also determined that Mr. David Childers was driving a 1966 4-door green Chevrolet bearing license tags from the State of Missouri, which number is PL-1121. For the record, Mr. Gary Brown drives a 4-door 1966 Pontiac Bonneville bearing Missouri plates No. XJ-6663, and there is somehow involved a 1966 Ford 4-door, Missouri license plate PL-1211, and I call your attention to the similarity of the two license plate numbers: Missouri PL-1121 and Missouri PL-1211, for it is suspected that these license tags can and might be switched from car to car. Another Ford bearing Florida license 28W-13528 registered to one R. Haight of 119 Gold Drive, New Port Richey, Florida, is suspected of being involved with this firm.

Our investigation determined that Palm Beach County occupational license had been issued to David Childers whose residence address is shown as 4654 Myla Lane, West Palm Beach using a mailing address of 3913 West Sixth Street, Ft. Lauderdale, and to one John C. Silvey whose address is 3913 West Sixteenth Court, Ft. Lauderdale. Both of these principals who are suspected of having altered either their first or last names, are designated in the literature of Youth Incentive of New York as board members. A copy of a cancelled check given by Mr. Robert Fleming, 3149 Florida Blvd., Lake Park, has been uttered in the name of Intercity Youth Corp and endorsed for deposit as follows: "Intercity Youth Corp" and under that "Youth Corps" and deposited at Riverland Bank, Ft. Lauderdale, to account No. 00-482-0.

Attached you will find copy of the corporate structure for Intercity Youth Corp, Inc., list of license tags involved and to whom issued, a copy of citation from Department of Commerce, and a copy of the newspaper article from the Palm Beach Post of Friday, March 23.

While contacting the various municipal police departments involved it was learned that Lake Park Police Chief Manning has the name of another supervisor and a list of names of the children involved in recent sales in his city. It was also learned from the Lantana Police Chief that immediately following the time that these children had been in his residential areas there would follow a rash of breakings and enterings of homes while the residents were out.

On Friday, March 23, Mr. E. Kash Salyer, Commerce Department, advised this writer that he had received a call at about 4:15 p.m. from a party in Orlando who informed him that Intercity Youth Corp did have workmens Compensation and that proof of such would be forthcoming. To date this information has not been received by Mr. Salyer. He was further informed on Monday, March 26, that Mr. Gary Brown had been to the School Board to acquire work applications. It was learned on Monday, March 26, that Gary Brown and/or David Childers had obtained an occupational license from the City of Lantana. It is the opinion of this writer that an occupational license per se does license merely the named principal on the license but does not license any salesmen, solicitor, or children that might be involved in the sale of products or merchandise.

During the weekend of March 24 and 25 the writer was annoyed by four different phone calls at her home by persons unknown, male and female, who called to ask if this was the residence of Alice Skaggs and the caller would then hang up the phone. Additionally the writer was, in an obvious attempt to harass, watched and followed at her home and that of a friend by the same two automobiles for a period of over two hours on Saturday night. The West Palm Beach

BEST COPY AVAILABLE

police were called and advised. The writer did not ask for a report in the matter. The writer also received a phone call on Saturday from one Louise Bari a/k/a Louise Bonpadre, president of Savoy Continental Social Club, also suspected through on-file evidence, to be part of organized crime. Conversation went thus: "Is this the residence of Alice Skaggs? Is this Alice Skaggs? You will live to regret forcing me to close my social club. You will not be in your position forever. I'll see to that."

In view of the magnitude of this matter I respectfully request your office and that of the governor to consider asking the Florida Law Enforcement Bureau to become involved and assist in this matter.

This report is being submitted to you as per your request.

Respectfully,

Alice C. Skaggs

Alice C. Skaggs, Director
OFFICE OF CONSUMER AFFAIRS

ACS:k

Enc.
AIR MAIL

CC: Mr. Robert Green, Department of State, Coral Gables, Fla.
Mr. Richard Lopez, Investigator, State Attorney s Office, W.P.B.
Sgt. McCants, P.B. County Sheriff s Dept.
Sgt. Winifred Moree, West Palm Beach Police Dept.
Mr. Alan Ciklin, Asst. County Attorney, Palm Beach County
Mr. Dean Rosenbach, Consumer Advocate, P.B. County
Mr. E. Kash Salyer, Bureau of Workmen's Compensation, West Palm Bch.

Mr. Jim Young, Consumer Advisor

Continuation of attached report

March 28, 1973

On Tuesday, March 27, between 4:30 and 5:00 p. m., David Childers accompanied by an 11-year-old black boy and his mother appeared at the School Board and requested that the mother be allowed to sign for a work certificate for her son. Mrs. Norma Aldrich advised Mr. Childers that children under 14 years of age could not be certificated for street selling. Mr. Childers then demanded to see the Statutes and stated upon reading them that there was a Statute allowing 12-year-olds to be "street peddlers". Mrs. Aldrich explained to Mr. Childers that this segment of the Statute merely applied to "newspaper sales, magazine sales, and shoeshine boys". Mr. Childers copied the Statute from the Statute Book. He then became quite abusive to Mrs. Aldrich and left at approximately 5:00 p. m.

At approximately 10:50 p. m. Tuesday, March 27, E. Kash Salyer, Department of Commerce, received a phone call from a party giving the name of Anthony Domino who made threats as follows: "You are conducting a personal vendetta against Intercity Youth Corp. Now I am going to conduct a personal vendetta and I will stomp and kick your guts out. I know that you were responsible for telling Mrs. Aldrich not to allow a work certificate to be issued to the kids who want to work for Intercity Youth Corp. If you don't stop your actions, your house will be bombed. In fact, you had better look up at your front door because I am coming to smash or bash it in." Mr. Salyer accused the calling party of being David Childers and the party disclaimed this. At approximately 11:15 p. m. March 27 E. Kash Salyer did phone Palm Beach County Sheriff's Department and did tape-record this threat.

Thursday, March 28, E. Kash Salyer did come to this office to advise the writer of what had transpired the preceding night. He further stated at this time that another phone call was received by him at approximately 12:00 midnight and that when he answered the phone, party on the other end of the line merely hung up after a brief pause.

The writer phoned Mr. Lopez, Investigator for the State Attorney's Office and advised him of what had happened to Mr. Salyer and asked his advice. Mr. Lopez advised that Mr. Salyer see Detective Lt. Johnson at the Palm Beach County Sheriff's Department who is in charge of threats against persons. An appointment for Mr. Salyer with Lt. Johnson was arranged and hopefully charges will be brought. The writer will this date request the State Attorney's Office to petition the courts for an injunction against Intercity Youth Corp.

The writer had been contacted by a Mrs. Robert Fleming (Alice M. Fleming) of 3149 Florida Blvd., Lake Park, on Friday, March 23, informing the writer that she was in possession of her personal cancelled check dated

Mr. Jim Young, Consumer Advisor
Continuation of attached report

March 28, 1973

March I issued to Intercity Youth Corp. Mr. and Mrs. Robert E. Fleming (Alice M.) did this date come into this office and allow us to make photocopies of said check that shows check had been deposited to Youth Corp at the Riverland Bank in Ft. Lauderdale to Account No. 00-482-0. A copy of this check is enclosed.

This writer will keep all parties informed.

Alice C. Skaggs

Alice C. Skaggs, Director
OFFICE OF CONSUMER AFFAIRS

ACS:k

Enc.

CC: Mr. Robert Green, Department of State, Coral Gables, Fla.
Mr. E. Kash Salver, Bureau of Workmen's Compensation, West Palm Bch.
Mr. Richard Lopez, Investigator, State Attorney's Office, W. P. B.
Sgt. McCants, P. B. County Sheriff's Dept.
Sgt. Winifred Moree, West Palm Beach Police Dept.
Mr. Alan Ciklin, Asst. County Attorney, Palm Beach County
Mr. Dean Rosenbach, Consumer Advocate, P. B. County

P. S.

Have just been advised by Palm Beach County Occupational Licensing (Mr. Galarneau) that Dave Childers and John C. Silvey have Palm Beach County Occupational License as "Dealer in tangible property" and that this applies to licensed individuals only, not to any crew. To work a crew is a misdemeanor.

A. C. S.

BEST COPY AVAILABLE

CORPORATE STRUCTURE -- INTERCITY YOUTH CORP, INC.

Date it was filed: February 1, 1972

Address of business: 15331 NW 7th Avenue, Miami, Fla.

Agent for Service: Gerald Pickens, Esq., 12595 NE 7th Avenue,
North Miami

President: Don Templen, 1315 NE Miami Court, Miami

Vice-President: Ron Kelso, 8250 NE 4th Place, Miami, Fla.

Secretary-Treasurer: Wayne Oetker, 8250 NE 4th Place, Miami

Youth Corps

HELLO!

My name is [illegible]

I am a member of YOUTH CORPS.

YOUTH CORPS means trips, activities, part time jobs and spending money for many boys like myself.

Will you help support our program by making a purchase!

PLEASE NO CONTRIBUTIONS OR DONATIONS

We seek self improvement and pride in what we do!

NON CHARITABLE

ITEMS FOR SALE

$1.50

Yes, We Do Accept Checks

FOR MORE INFORMATION CONTACT

1-587-2122

THANK YOU!

FLORIDA [illegible]
[illegible]
NOTICE OF VIOLATION OF THE FLORIDA CHILD LABOR LAW

An inspection made by the undersigned on [illegible] '73 indicates that [illegible]
[illegible] 33406

is in violation of the provisions of the Florida Child Labor law as [illegible] to [illegible]
[illegible] 11 to 15 Years. - Selling [illegible]
[illegible] without [illegible] Special [illegible]
[illegible]

put on [illegible]

[illegible] Representative [illegible] Date [illegible]/73

[illegible] of Responsibility of Employer. I have been [illegible] concerning laws, rules, and regulations governing the [illegible] of minors.

[illegible] or his Representative [illegible] Supervisor
Name Title

[illegible] STATUTES.

WCD
FORM 1

FLORIDA DEPARTMENT OF COMMERCE
Bureau of Workmen's Compensation

NOVG ______
D/A ______

NOTICE OF VIOLATION OF THE WORKMEN'S COMPENSATION ACT

An inspection made by the undersigned on ______ indicates that
DATE

______ ______
NAME OF FIRM ADDRESS

______ is in violation of the provisions of the Florida Workmen's Compensation Act by reason of not having secured the payment of compensation to employees (see 440.?? & 440.38, F. S.).
TYPE OF BUSINESS

You are hereby required to comply with the provisions of this Act without delay and furnish the following information to the undersigned immediately.

______
FIELD REPRESENTATIVE

NOVG to ______
No. Employees ______
Name & Address of Agency ______

Jane Childers - jane (lew) actress [illegible] 3 licenses
John C Silvey
Richard Robeson
but 9 are making licenses -

Missouri License No.	PL-1211	Wanda McCormick Route 2, Box 230 Sikeston, Mo.
		On 1966 Ford, 4-door
Missouri License No.	PL-211	not a good number in Missouri
Missouri License No.	PL-1121	registered in name of David Childers, Route 1, Bell City, Missouri
		On 1966 Chevrolet, 4-door
Florida License No.	28W-13528	registered in name of R. Haight, 119 Gold Drive, New Port Richey, Fla.

BEST COPY AVAILABLE

Solicitations

WINSTON-SALEM SENTINEL
MARCH 16, 1974

Support for New Laws

Ed J. Edgerton, special assistant for solicitation licensing in the N.C. Department of Human Resources, is a staunch supporter of proposed new state and federal solicitation laws.

In a telephone interview today, he ticked off his reasons:

"We have a (state) law that is 27 years old, made when charity was really not of the proportion it is today. Consequently our law is antiquated and doesn't meet today's requirements. it doesn't cover professional solicitors. It is being challenged in the courts as being unconstitutional.

"Only about 23 states have reasonably good solicitation laws," he said, "and the federal legislation would fill that particular gap."

Edgecton and Harvey Katz, a consultant to the U.S. Senate subcommittee studying children's charities, are working on laws intended to put out of business companies that cloak themselves in a mantle of implied charitable efforts to make a profit out of the business.

A nationwide law is needed, Katz says, because a state may run the operators out one year only to have them come back the next. "A federal law would stamp them out completely," he said.

Katz said he believes federal legislation will be proposed as a result of the hearings being held by his subcommittee — the children and youth subcommittee of the Senate Committee on Labor and Public Welfare. The main committee is headed by Sen. Walter Mondale, D-Minn.

Katz said federal legislation would probably include a provision requiring charities to disclose their finances and a provision for exchange of information on different charities.

Edgarton said he is working with Rep. David D. Jordan, R-Mecklenburg, who has introduced a 27-page bill in the General Assembly.

Jordan said the bill has been received favorably but said he is skeptical it will be passed this session. He said the Judiciary Committee has had little time to consider it and voted to remand it to a subcommittee for further study.

"Our present law covers only non-profit groups, and therefore the professional solicitor stands outside the law while remaining the No. 1 problem in the state as far as solicitations go," Edgerton said.

Under the proposed state law, professional solicitors "are defined clearly and are required to file for licenses, pay a fee and post a bond payable to the state for any wrongdoings . ."

It also says: "No person shall . . .misrepresent to or mislead anyone by any manner, means, practice or device whatsoever to believe that the person on whose behalf such solicitation or sale is being conducted is a charitable organization or that the proceeds . . will be used for purposes other than the stated charitable purposes."

—BILL BANCROFT

Children Peddle For Firm's Profit

By John Mathews
Star-News Staff Writer

A soft-spoken 29-year-old franchise operator yesterday told a Senate investigating committee how in less than three years he has built up a $3.2 million-a-year business that uses children as door-to-door peddlers of candy, dookies, candles and popcorn.

Morrie Friedman described an operation called National Youth Clubs of America, which uses in its promotional materials an attractive medallion picturing a silhouetted adult and child against the background of an American flag.

Operating in 32 states, including Virginia's Charlottesville and Norfolk areas, National Youth Clubs is not a charity but a profit-making business, Friedman told the Senate subcommittee on children and youth. But he acknowledged to the chairman, Sen. Walter F. Mondale, D-Minn., that the name of the organization could lead a buyer to conclude he was contributing to a charity rather than a business.

FRIEDMAN whose title is director of marketing and finance, said that although promotional literature notes that the young peddlers compete for scholarships, there is no guarantee that the franchised operator provide such aid. About 100 persons are franchised by the organization, paying $5,000 down initially and promising to buy $20,000 worth of products through the national office in Lake Zurich, Ill., Friedman said.

Candy manufactured by the E.G. Whitman Co. of Philadelphia is sold door-to-door—usually for $1.75 a box—by children enlisted by the franchisers. Friedman said the child and the crew manager get 25 cents each, the distributor keeps 70 cents and the nationa organization gets 15 cents The candy costs the company about 40 cents, he said.

An Illinois assistant attorney general, Donald G Mulack, told the committe that Friedman had been enjoined by a state cour from operating franchis businesses in the state.

Another official, Carol Cochran, director of the Pennsylvania Commission on Charitable Organizations, said National Youth Clubs operated in the state but ceased doing business after authorities found children under 14 were being used in violation of child labor laws.

Friedman said he has filed a suit in federal court in Illinois contending that child labor laws are unfair because they allow profit-making business such as newspapers to use underage children but prohibit other business from employing them.

ANOTHER operator of a business that employs children as salemen also raised objections to other state laws requiring peddler licenses.

Gerald Winters of Winter Park, Fla., whose Junior Salesmen of America is a profit-making business, told Mondale that he had been "arrested many times for peddling without a license."

"I don't see anything wrong, because I was doing something I believed in," Winters said. "Most arrests came about because I was working with black youths."

On Monday, Winters angrily left the witness table, objecting to the questioning by committee counsel Harvey Katz. But yesterday he returned to testify voluntarily about Youth Incentives, Inc., a nonprofit selling operation he founded which is now defunct.

Wash. Star 3/13/74

BEST COPY AVAILABLE

A LOOK AT CHARITIES

How Much of Your Donation Reaches Needy?

By **JUNE KRONHOLZ**
Herald Staff Writer

It comes a few times a month, tucked in among the bills and magazines: an envelope containing a bookmark, holiday seals, a key chain or simply the plaintive photographs of children who need your help.

The appeal is a touching one. Your fortunes have been good this year. And besides, you feel guilty about accepting the little gift without making a donation.

So you write a check. Why not? It's for a good cause, you think.

And most of the time, it probably is. Most of the time your dollar will find its way to a research laboratory or a children's hospital or an international rescue service.

MOST OF the time, but not always. As a U.S. Senate subcommittee learned this month, there are times when fund-raising and administrative costs are so high that even the paper-richest charities are left, like Oliver Twist, crying for more.

And it's all perfectly legal. There's no federal law against spending charity dollars on executive salaries and conventions in Bermuda. There's no Florida law that can force a foundation to spend even a dime on the social ill it claims to salve. A Florida bill to limit the cost of fund-raising has been defeated in the Legislature twice already.

"It's like trying to abolish Christmas," laments Miami Rep. Robert Hartnett who plans to introduce the bill once again this spring. "But some ofthe things I've learned about charities have put a cynicism in my heart."

Charities are big business in Florida. Four thousand of them already are licensed to solicit in the state and every week 200 more apply for the right.

By promising to send Secretary of State Richard Stone a financial statement every fiscal year, most of them will earn their state license.

And because the law is so loose and Stone's investigative forces so sparse, few of

One which did is the Asthmatic Chil-
them ever will lose the right to solicit.
dren's Foundation, a Miami Beach-based charity. Senate researchers discovered the foundation has collected $9.9 million in the past decade, but spent only $900,000 of it on asthmatic children.

The rest — 86 per cent — went for fund-raising and salaries, the charity's financial records show. The lion's share of every charity dollar, foundation directors admitted, was paid to a Chicago advertising man.

It wasn't illegal for the Asthmatic Children's Foundation to spend more on fund-raising than on charity. And it wasn't illegal to hire a professional solicitor. But it was illegal to fail to report the solicitor's name to the secretary of state.

The charity's punishment: It loses its license, but only until it changes its ways.

The Asthmatic Children's Foundation fund-raising costs may be high, but they are not unique.

Financial reports filed with the secretary of state's office indicate that for many charities, the cost of helping people is high.

In 1973, a Holly Springs, Miss. charity called Christian Aided Development Through Extraordinary Training raised $399,384 in Florida and the rest of the

Turn to Page 14A Col. 1

Panel Told of Candy-Selling Scheme

N.Y. Times

WASHINGTON, March 13 — Law enforcement officials from four states have told a Senate subcommittee of schemes in which inner-city youths were being recruited with false promises of scholarships and money to sell candy from door to door in the affluent suburbs.

Also appearing before the panel yesterday were representatives of several sales organizations.

The law enforcement aides said that the operators of the schemes profited by cloaking themselves in the mantle of implied charitable efforts.

Donald G. Mulack, Assistant Attorney General of Illinois, said that the schemes, that became public in his state about two years ago, involved the recruiting of children to peddle candy worth 30 to 50 cents a box. The candy is sold for $1.50 to $1.75 a box. The child keeps 25 cents and turns the balance over to the company or the crew manager.

"In a typical operation," Mr. schemes in their states.

Also testifying were officials of several of the sales organizations.

Morrie Friedman, executive director of the National Youth Clubs of America, said, "I don't feel as long as there's proper supervision it's such a detriment to the child."

He blamed greedy franchise holders for any failures to deliver on promises of scholarships.

Mr. Friedman estimated that his organization had hired 25,000 to 30,000 children, starting them in at the age of 8 or 9. He said his organization achieved about $3.2-million in gross sales last year.

Gerald Winters, a candy wholesaler who set up Youth Incentives, Inc., said that he wanted to help disadvantaged youths earn money and learn self-reliance and business sense. "I am the first one to admit now that the organization grew without proper direction," he said.

Mr. Winters said that Youth Incentives had been aimed at teen-agers and estimated that as many as 1,500 were out selling in 25 cities on a given Saturday before state officials began cracking down.

Mulack said, "a crew manager recruits young people at candy stores near grammar schools through posters and flyers that advertise 'Students wanted, earn up to $20 a week, part-time.'"

'Trading on Charity'

The operators, the subcommittee was told, play on the respectability of such campaigns as Girl Scout, church and school cookie sales.

"The Fagin operators have moved into this market and are trading on this background of charity and goodwill," Mr. Mulack said.

Officials from Pennsylvania, Florida and New Jersey told the Subcommittee on Children and Youth about nearly identical

BEST COPY AVAILABLE

Charities for Children: How Is the Money Spent?

BY MARLENE CIMONS
Times Staff Writer

WASHINGTON—It comes with the rest of the mail, tucked in between the bills, the letters and the magazines—an envelope containing a small item of some kind, or perhaps holiday seals, or the plaintive photographs of children who need your help.

The appeal is a touching one, so you give. Maybe you feel guilty because you have had good fortune and they have not, or maybe you just don't feel right keeping the little gift without sending back a contribution, so you sit down and write a check.

Why not? You think, it's for a good cause.

Most of the time, it probably is for a good cause and there is no reason to be suspicious. But did you ever stop to wonder, as you slipped the check into the prepaid envelope and sent it off, just where your money is going? Or how much of your gift is actually being spent on the needy children?

Most charities don't volunteer those facts with their solicitations—and, depending on where you live, that information is not always readily available if you're willing to take the time to ask.

If you were told, for example, that a substantial percentage of your charity dollar was being used to defray fund-raising costs, or pay the salaries of the organization's executuvies, would you continue to contribute?

Finally, do you believe you are entitled to know these things before you reach for your checkbook?

These and other questions concerning the children's charity business were explored in detail last week during three days of hearings by the Senate subcommittee on children and youth, of the Labor and Public Welfare Committee. The hearings, which began to probe the first few of about 30 different children's charities, are expected to inspire legislation that would provide, among other things, disclosure of finances to potential contributors at the time of solicitation.

'Public Should Know'

"If 90% of a contributor's dollar is going toward fund raising—and not to the children—the public should know about it," Sen. Walter F. Mondale (D-Minn.), chairman of the subcommittee, told The Times. "I don't want the federal government making policy judgments or running these charities, but I think contributors deserve to have that kind of information before making their decisions."

Two similar bills have been introduced in the House by two California congressmen, Reps. Lionel Van Deerlin and Thomas Rees, both similar in their public disclosure regulations. They both require charities to tell the contributor their fund raising costs when the appeal is made, as well as the general purposes of the contribution and the financial terms of any contracts made between the charities and professional fund raising organizations. Van Deerlin's bill also includes punitive measures for charities that do not comply.

Mondale is considering legislation that would require a national uniform accounting system certified by auditors for all charities. It would include a provision against certain kinds of fund raising tactics.

"When a charity starts mailing out unordered merchandise, especially if it's valuable, the fund raising costs are going to be fantastic," he said.

Because charity registration and reporting now vary from state to state, he said, charities with questionable operations simply avoid those states likely to give them trouble. "Maybe we also could have some grants-in-aid to encourage all states to have registries through their attorney general's office," he said.

CELEBRITY CHAIRMAN WITNESS—"Most entertainers participate (in charities) on blind faith assuming that the money is spent right," actor Peter Falk told Senate subcommittee.
Times photo by James H. Pickerell

California has, as part of the state attorney general's office, a registry of charitable trusts. With the exception of schools, hospitals and churches, all California charities and all out-of-state charities doing business or holding assets in California must register and file annual financial statements on a standardized form.

According to Lawrence Tapper, deputy attorney general, there are 13,000 charities registered in the state. "The information is in a public file," Tapper said. "There is, however, a lag time—because it's last year's statement—but at least you can see the operation of the charity."

In addition, Tapper said, many communities in the state, including Los Angeles, have ordinances requiring charitable organizations to take out permits in advance of public solicitation and to file reports at the conclusion of their campaigns.

Tapper said he would favor legislation giving as much information as possible to the potential contributor, but added that there would be problems in effecting it.

"What happens if you have a new organization without a history of fund raising?" he said. "It is not in a position to give information about its fund raising costs. In broad general terms we are in favor of accurately informing the public. The big

Please Turn to Page 14, Col. 1

WINSTON-SALEM SENTINEL, MARCH 16, 1974

The Candy Pitch

Young Salesmen Recruited

By BILL BANCROFT
Sentinel Staff Reporter

Remember that young black kid who came to your front door recently selling boxes of candy? One came to my house about two weeks ago.

Right, the one whose sales pitch was about Youth Incentives Inc. and how he got 30 cents from every $1.50 box of candy he sold.

Yeah, the one who left the impression that the rest of the money would go to some sort of charitable purpose he and other kids would benefit from.

Well, officials here and in Florida say the youth may have been working in violation of the state's labor laws, and the candy is probably of poor quality. Youth Incentives Inc. is a purely for profit company grossing between $750,000 and $1 million a year. Maybe much more, and it is operating here without the proper local license.

Youth Incentives Inc. with headquarters in Greensboro has been operating in North Carolina for about two years, according to state officials. It and National Youth Clubs of America, which an official says has been operating in Raleigh, have been identified by a U.S. Senate subcommittee as operating on a national scale and cloaking themselves in a mantle of implied charitable efforts to make a profit.

While both groups are reportedly active in North Carolina, neither is registered with the state as a charitable organization.

"I hear complaints about local groups," said Harvey Katz, consultant to the Senate Committee on Labor and Public Welfare. "What happens is a national group will license someone to do a local operation and that person will eventually break off and form its own local group."

"It's safe to say we found that much less than what people expect is getting to children," Katz said. "It's not a new problem; it's a continuing problem.

Katz said a subcommittee is holding hearings on children's charities with the view to writing federal legislation governing soliciting by and for charitable organizations. Hearings Tuesday included accounts of Youth Incentives and National Youth Clubs operations in a number of states.

Gerald Winters, owner of Youth Incentives, testified at hearings Tuesday that it is operating in 21 major U.S. cities.

Morrie Friedman, executive director of the National Youth Clubs of America, estimated that his organization has hired 25,000 to 30,000 children, starting them at the age of 8 or 9.

He said his organization had about $3.2 million in gross sales last year.

"They come in here with this Italian candy and give it to these kids to sell door to door," said Capt. W. C. Burton of the city police department. "They promise them a prize like a camping trip, plus they give them a percentage of the profits," Burton said.

Donald G. Mulack, assistant attorney general of Illinois, testifying at the

See Candy, Page 6

Candy Racket: Youngster

THE WINSTON-SALEM SENTINEL, MARCH 16
15.

Recruited for Selling

Continued from Page 1

hearings, compared this type of operator to Fagin in the Charles Dickens novel Oliver Twist.

Fagin was a seedy slum fence who coached street urchins in the art of picking pockets and exploited them by pocketing the bulk of the money.

The "Fagin operators," Mulack said, recruit inner city youths with false promises of scholarships and cash to sell candy door-to-door in more affluent neighborhoods. The child keeps a small portion of the cash.

"In a typical operation," Mulack said, "crew managers recruit young people at candy stores, near grammar schools, through posters and flyers which advertise: 'Students wanted, earn up to $20 a week, part time.' "

"On the surface it looks like an innocent black poor kid from the ghetto coming to sell candy, and below it looks like a lot more," said Ed J. Edgerton, a special assistant for solicitation licensing in the state Department of Human Resources.

He said that the children are generally from 10 to 14 years old and are taken to other neighborhoods from the ones recruited in, many times in other cities.

"There are between five and seven kids for one supervisor," said Katz. He said as many as 10 crews will work a city at any one time.

The children generally start their work after school or on weekends, said Edgerton, and quit sometime between 6 and 8 p.m.

"The kid is working as an independent contractor rather than an employe of the company," Edgerton said. "He is paid 30 to 35 cents per box of candy and the crew leader gets 30 to 35 cents."

"The candy has been reported in many cases to be of very poor quality brought generally from Italy, and that which is brought is many times repackaged to carry the Youth Incentives name," Edgerton said.

"Gerald Winters (the owner of Youth Incentives Inc.) has been doing something like this since 1958," said Katz. "Our concern is that in 1969 he incorporated Youth Incentives and got a tax exemption from the Internal Revenue Service and for the first time made it a charity."

Katz said the IRS has recently suspended the status because Winters failed to submit the proper financial disclosure forms, but no decision has been made on back taxes.

A 1970 financial statement, Katz said, shows that Youth Incentives grossed $763,050 that year.

Robert Green, charitable solicitations coordinator in the Florida secretary of state's office, said the group operating in Dade County last year grossed $1 million alone.

"The children working as they do would be a violation of child labor act in most cases," said Edgerton. Under the law a child under 14 is not allowed to work unless he is delivering newspapers. A child between 14 and 16 years old is prohibited from working after 7 p.m. without a work permit.

A city ordinance requires that each youth have a $10 peddler's license, said Burton. He said the Youth Incentives Inc. officers have not obtained them.

Winters, in testimony before the committee, said he set up Youth Incentives because he wanted to help disadvantaged youths earn money and learn self reliance.

Friedman testified: "I don't feel as long as there's proper supervision, it's such a detriment to the child."

"As we got involved in this thing," said Robert Hitchcock, head of the city's Better Business Bureau, "we found out that some of the parents involved thought it was a wonderful thing because children were able to make money when they couldn't find a job."

"The kids don't necessarily come out poorer although there was testimony some were not getting paid what they should," said Katz.

"There is a need for organizations that do employ inner city youth so they don't hang around city street corners," said Katz.

"If profit-making businesses can do this and provide employment for low income youths," Hitchcock said, "why couldn't civic clubs do it and they could cut the price of the candy down."

BEST COPY AVAILABLE

WHO GAINS?

3/12/74

Kids Learn To Peddle

By John Mathews

Star News Staff Writer

Children peddling products such as candy, cookies, nuts and calendars are engaged in a multimillion-dollar operation benefiting a wide variety of organizations — some with questionable purposes — according to testimony before a Senate subcommittes.

Among well established groups using young solicitors, the Girl Scouts of America annually gross $53.6 million for their traditional cookie sale, Camp Fire Girls, Inc., brings in some $13 million a year from its product sales.

State officials testified yesterday before the subcommittee on children and youth about some lesser known groups that have used children as young as eight in door-to-door product sales.

ROBERT GREEN, Florida's state coordinator of charitable solicitations, said that the now-defunct Youth Incentives, Inc., regularly had adult supervisors bring black children as young as eight, across county lines to sell candy in white neighborhoods.

Successor organizations of Youth Incentives, called Youth Advancement and Youth Initiatives, claimed to operate a youth center, which Green said consisted of "three pinball machines . . . with one that worked and cost 5 cents a game."

Green criticized the solicitation groups he has investigated, saying adult supervisors realize that "this is one of the easiest ways of making substantial money in the state of Florida." Children do not receive encouragement to work, he said, but learn "to peddle instead."

An original incorporator of Youth Incentives, Gerald Winters of Winter Park, Fla., appeared voluntarily before the committee. But, after about half an hour of testimony, Winters angrily left the witness chair

"You're just trying to trap me . . . I refuse to answer all further questions on the grounds it would tend to incriminate me," Winters told Harvey Katz, committee counsel.

~~Katz~~ and Sen. Jennings Randolph, D-W. Va., had been trying to determine when Winters resigned from the board of Youth Incentives. Winters said he could not recall the date and was unable to find in his files his letter of resignation.

His testimony, however, did bring out the information that Youth Incentives was incorporated in Washington in September 1969, and also operated in Minnesota, New York, Florida, New Jersey and Illinois. Subcommittee Chairman Walter Mondale, D-Minn., said Winters' testimony was "incomplete," and added that the subcommittee would meet soon to consider whether to subpoena his records.

EARLIER in the gearing, officials of both the Girl Scouts and Camp Fire Girls discussed their product sales.

Betty F. Pilsbury of Toledo, a member of the Girl Scouts national board, told the committee that the $53.6 million gross sales of cookies in 1972, $22.8 millions goes to seven companies that manufacture the product and $30.8 million is profit to the scouts. On the average the cookies cost 42 cents a box and sell for $1, she said.

The Scouts' 317 regional councils received $25.5 million of the profits and local troops got $5 million to support a wide range of activities, including summer camps and scholarships for camping, Mrs Pilsbury said.

Dr. Hester Turner, Camp Fire Girls executive director, testified that half of the $13 million product sale income is profit and half pays for the cost of products.

Children Peddle For Firm's Profit

By John Mathews

Star News Staff Writer

A soft-spoken 29-year-old franchise operator yesterday told a Senate investigating committee how in less than three years he has built up a $3.2 million-a-year business that uses children as door-to-door peddlers of candy, dookies, candles and popcorn.

Morrie Friedman described an operation called National Youth Clubs of America, which uses in its promotional materials an attractive medallion picturing a silhouetted adult and child against the background of an American flag.

Operating in 32 states, including Virginia's Charlottesville and Norfolk areas, National Youth Clubs is not a charity but a profit-making business, Friedman told the Senate subcommittee on children and youth. But he acknowledged to the chairman, Sen. Walter F. Mondale, D-Minn., that the name of the organization could lead a buyer to conclude he was contributing to a charity rather than a business.

FRIEDMAN whose title is director of marketing and finance, said that although promotional literature notes that the young peddlers compete for scholarships, there is no guarantee that the franchised operator provide such aid. About 100 persons are franchised by the organization, paying $5,000 down initially and promising to buy $20,000 worth of products through the national office in Lake Zurich, Ill., Friedman said.

Candy manufactured by the E.G. Whitman Co. of Philadelphia is sold door-to-door—usually for $1.75 a box—by children enlisted by the franchisers. Friedman said the child and the crew manager get 25 cents each, the distributor keeps 70 cents and the national organization gets 15 cents. The candy costs the company about 40 cents, he said.

An Illinois assistant attorney general, Donald G. Mulack, told the committee that Friedman had been enjoined by a state court from operating franchise businesses in the state.

Another official, Carol Cochran, director of the Pennsylvania Commission on Charitable Organizations, said National Youth Clubs operated in the state but ceased doing business after authorities found children under 14 were being used in violation of child labor laws.

Friedman said he has filed a suit in federal court in Illinois contending that child labor laws are unfair because they allow profit-making business such as newspapers to use underage children but prohibit other business from employing them.

ANOTHER operator of a business that employs children as salemen also raised objections to other state laws requiring peddler licenses.

Gerald Winters of Winter Park, Fla., whose Junior Salesmen of America is a profit-making business, told Mondale that he had been "arrested many times for peddling without a license."

"I don't see anything wrong, because I was doing something I believed in," Winters said. "Most arrests came about because I was working with black youths."

On Monday, Winters angrily left the witness table, objecting to the questioning by committee counsel Harvey Katz. But yesterday he returned to testify voluntarily about Youth Incentives, Inc., a nonprofit selling operation he founded which is now defunct.

Star — March 13

Sale of candy for 'charity' assailed at Senate hearing

By Arthur Siddon

Chicago Tribune Press Service

WASHINGTON, March 12—Americans spend millions a year buying candy to help charities which don't exist, Sen. Walter Mondale [D., Minn.] said today.

Mondale, whose Senate subcommittee on children and youth is holding public hearings on children's charities, said the money goes to line the pockets of slick promoters who send children door-to-door to sell their candies.

The promoters use the children to mislead the public into thinking "they are buying a commodity which will be for charitable purposes where in reality it either is not or the amount of charitable services performed is so minimal as to be nonexistent," Mondale said.

MORRIE FRIEDMAN of Lake Zurich, Ill., appeared before Mondale's committee and admitted he runs a nationwide for profit business and that its National Youth Clubs of America misleads the public into thinking it is a charity.

"Wouldn't the name lead the public into believing you are running a charity enterprise rather than a business?" Mondale asked Friedman.

"Probably," Friedman admitted.

The National Youth Clubs of America, which uses children 9 to 13 years of age to sell candy door-to-door, has gross candy sales of approximately $3.2 million a year, Friedman admitted.

THE CHILDREN who make the sales receive 25 to 30 cents for each box sold at $1.50 to $1.75.

Altho Friedman said the children also can earn scholarships, another witness, Donald G. Mulack, chief of the Charitable Trust and Solicitations Division for the Illinois attorney general, testified that no scholarships are given "in the true sense of that word.

Friedman claimed that six scholarships were awarded to children in Michigan. The scholarships consisted of $25 savings bonds, he said.

OFFICIALS FROM Florida and New York, also testifying before the committee, agreed with Mulack that the promoters behind companies like the National Youth Clubs of America have questionable backgrounds.

FRIEDMAN, for example, Mulack said, has a police record which includes an indictment for mail fraud in Chicago, a plea of guilty to grand larceny in Clearwater, Fla., and an injunction in Wisconsin which calls for Friedman to make restitution and pay fines totaling $50,000 in connection with a charge of theft by fraud.

In addition, a bankruptcy petition filed in 1972 by one of Friedman's companies, United Boys Group, states Friedman took $50,000 from company funds, Mulack said.

Mulack said that in addition to National Youth Clubs of America, United Boys Group, which operate in Illinois or have operated in Illinois using children to sell from door to door include United Youth of America, United Boys zgroup, United Youth Group, Opportunity for Youth, Employment for Youth, and Student Opportunities for Self-achievement.

Report ad firm got 71% of charity

By Arthur Siddon

Chicago Tribune Press Service

WASHINGTON, Feb. 5 — A Chicago advertising firm received 71 cents of every dollar contributed last year to the Asthmatic Children's Foundation, it was revealed today.

During 1973, V. J. Giesler & Co., 646 W. Washington St., acting as official solicitor for the foundation, collected $814,324 for the foundation thru public appeals and kept $577,083 for itself for solicitation fees and expenses, a Senate subcommittee on children and youth disclosed.

Since 1963, the Giesler firm has solicited $9.9 million for the foundation and $7.4 million, or 73 per cent of the funds, went to Giesler for commissions and expenses.

WHILE PRAISING the foundation for the work it has done to aid asthmatic children, Sen. Walter Mondale [D., Minn.], subcommittee chairman, questioned the wisdom of employing Vince Giesler to conduct its [the foundation's] direct mail solicitation.

"I have mixed feelings,"

Continued on page 4,, col. 6

Report ad firm got 71% of charity fund

Continued from page one

Mondale told the foundation's directors during a public hearing on how children's charities do business.

"The work you are doing, I am told, is outstanding," he said. "You have fine medical people. Yet, it seems to me . . . you have used a technique which has absorbed costs which are fantastic."

In addition to the money paid Giesler, the foundation has had other expenses which have reduced the actual amount which goes to help asthmatic children to an average of between 10 to 26 cents out of every dollar contributed over the last 11 years, Mondale said.

was graduated in 1940. He is the former director of the Old Town-Chicago Boys Club and winner of the Citizen of the Year award of the Commission on Youth Welfare.

Friedman said the foundation does not solicit funds in Minnesota because of strict reporting laws in that state. Nor does it solicit in Illinois, New York, or Florida because each state has a local organization connected with the Asthmatic Children's Foundation.

THE NEW YORK and Florida organizations operate residential treatment centers in those states. One was planned for Illinois but plans have been canceled and the Illinois organization is about to go out of business, he said. The Illinois organization contributes heavily to La Rabida Children's Hospital and Research Center in Chicago, he said.

"People like to think that when they give to charity 100 per cent of their money goes to the cause they want to support," Friedman said in defense of his position. "We are only one of hundreds of fund raising organizations. I don't know of one organization which tells the actual cost. . . ."

MONDALE'S figures, taken from Internal Revenue Service reports filed by the foundation show that in 1967, $991,343 was donated to the foundation by the public. Giesler received $794,581, or 80 per cent, for commission and expenses and an additional 10 per cent went for other foundation expenses, leaving only 10 per cent, or $99,000, to aid asthmatic children.

Israel Friedman, who receives $25,000 a year as executive vice president of the foundation, said he sees nothing out of line as far as Giesler's fees are concerned.

"I have always had the impression his prices are reasonable," Friedman said. "Printers have always told me they could not better his price."

FRIEDMAN SAID Giesler receives only 5 per cent of the amount collected as profit. The rest goes for costs in preparing and mailing the letters asking for donations. However, the committee staff, which has investigated the matter, said the 5 per cent figure is an after-tax figure and that Giesler actually receives 10 per cent of the gross as profit.

In Chicago, Giesler complained that the subcommittee has wronged and unfairly criticized his operations.

"We are simply printers, mailers, and creative writers for the Asthmatic Children's Foundation," he said.

"WE ARE IN the direct mail business in competition with the biggies, Donnelly and Metromedia," he said. "We do not receive any of the mail back or open any of the mail received nor do we get a percentage of what is contributed. Our printing and mailing prices are generally the least expensive. It's all open bidding and if someone finds another company less expensive, they go there.

"We didn't collect anywhere near that amount of money in the past years. They must be including administrative expenses of the foundation. I say before God I never took a bad penny. In no way was I ever involved in anything bad. I'm a square."

GIESLER HAS BEEN active in youth work since his undergraduate days at the University of Notre Dame where he

Disclose children's asthma charity was ruled 'for-profit'

By Arthur Siddon

Chicago Tribune Press Service

WASHINGTON, Feb. 6—The Asthmatic Children's Foundation, a tax exempt charity, was made to pay $21,675 in back taxes last year after the Internal Revenue Service ruled it was running a for-prfit business, Senate sources said today.

The Florida-based national charity, now under investigation by the Senate subcommittee on children and youth, apparently had been operating for profit since about 1965, sources said.

It was disclosed yesterday in testimony before the Senate subcommittee that more than 70 cents of each dollar contributed to the foundation has gone for fund-raising expenses—most of the money going to a Chicago firm, V. J. Giesler & Co., which conducts a direct mail fund-raising program for the charity. The firm does not solicit in Illinois.

ON GIESLER'S advice the charity has made a practice of offering for sale merchandise such as miniature orange trees, etchings, Eisenhower prints, and road atlases, the sources said.

In late 1970 or early 1971, after a five year investigation, the IRS ruled the practice constituted operating a for-profit business and ordered the foundation to pay back on the profits.

The Asthmatic Children's Foundation still offers the merchandise for sale but now includes a statement on the order form that such purchases constitute a nondeductible contribution.

In testimony before the subcommittee today, Howard M. Schoenfeld, chief of the procedures section of the IRS, confirmed that the children's foundation had been notified by letter that profits from the merchandise were taxable.

SCHOENFELD also said that altho he finds the foundation's cost of raising funds very high, the high costs themselves would not make the IRS suspicious.

However, another witness, Philip Sgarlata, director of the New York Charity Regulation Bureau, said his agency would investigate any charity whose costs exceeded 50 per cent of contributions.

"Fund-raising costs in our state average 8, 9, or 10 per cent," Sgarlata said.

"You would say 70 per cent is rather high?" asked Sen. Walter Mondale [D., Minn.], subcommittee chairman.

"Oh yes," Sgarlata answered. "I'd say 60 per cent was high."

MONDALE again today emphasized that he thinks the foundation is doing good work in helping asthmatic children and that he is not alleging fraud on the part of either the foundation or Giesler. He said he was simply questioning the high cost of Giesler's fund raising.

Dr. M. Murray Pashkin, the 81-year-old founder of the foundation, testified yesterday that most of what is left after expenses goes to two residential treatment centers for severely asthmatic children operated by the foundation in New York and Florida, and to La Rabida Children's Hospital and Research Center in Chicago.

Prospective contributors are told of the work done by the foundation. However, they are not told that the two foundation treatment centers treat an average of only 50 children at any one time, nor are they told how much of their contribution goes toward fund-raising expenses.

Two charities have no links to asthma group

OFFICIALS OF THE Children's Asthma Research Institute and Hospital in Denver and the Asthmatic Children's Aid in Chicago yesterday said there was no connection between their organizations and the Asthmatic Children's Foundation.

During a Senate subcommittee hearing Tuesday in Washington, it was disclosed that V. J. Giesler & Co., an advertising firm at 646 W. Washington Blvd., received 71 cents of every dollar collected for the foundation.

Mrs. Maxwell Singer of Evanston, a trustee for the Denver hospital, said donations are collected by 129 volunteer women's groups across the country. There is no paid staff and all the money is turned over to the institute for research and care.

Mrs. Bernard Arnold of Chicago, former president of the Children's Aid, said that organization operated thru the use of volunteers also. She said the organization solicits funds for LaRabida Sanitarium, research at Northwestern University, and children's summer camps.

86% OFF THE TOP

Auditing the Asthma Fund

By John Mathews
Star News Staff Writer

The Christmas letter sent to over 5 million people by the Asthmatic Children's Foundation pictures a running, smiling little girl, speaks of the joys of a family holiday season and makes an appeal for support of two treatment centers for children severely afflicted with "ashma — the dreaded crippler of youth."

Enclosed are personalized Christmas address labels which the potential donor is asked to keep.

On the bottom of the back side of the letter it says this: "A portion of your contribution to the Asthmatic Children's Foundation covers the cost of this letter and materials."

WHAT DONORS are not told, however, is that of the $9,910,075 they have contributed to the Miami Beach-based foundation during the last 11 years, 86 percent, or 18,500,600, has gone to fund-raising activities or overhead costs.

Over $7 million of that amount has been paid by the foundation directly to V. J. Giesler & Co. of Chicago, a direct-mail solicitation firm that prepares appeals letters and, has them printed and mailed. The Barnett Bank of Miami Beach handles collections at a cost of about $6,000 annuallly.

Contributors are also not told that what they give supports on-the average only 50 severely asthmatic children, who are treated at residential treatment centers in Oissining, N.Y. and North Miami, Fla., at an estimated annual cost of $20,000 each. An unspecified amount of foundation funds also supports medical research.

The financial records and fund-raising activities of the Asthmatic Children's Foundation and, its counterparts in New York and Florida, as well as four of its allied organizations, were discussed by foundation officials yesterday at a hearing of a Senate subcommittee on children and youth.

At the conclusion of the hearing, part of a continuing investigation of children's charities. Sen. Walter F. Mondale, D-Minn., subcommittee chairman told foundation officials that they have done "outstanding and much needed work," but added: "You have used a fund-raising technique which has absorbed costs that are fantastic." If people knew that nearly 9 percent of their donations went to fund-raising costs, the senator said, "I don't believe they would have contributed."

Dr. M. Murray Peshkin, the 81-year-old founder and president of the national foundation, who left to his assocciates discussion of financial details during the hearing, answered: "If you save one life, you save the world. I wouldn't worry about how much it costs."

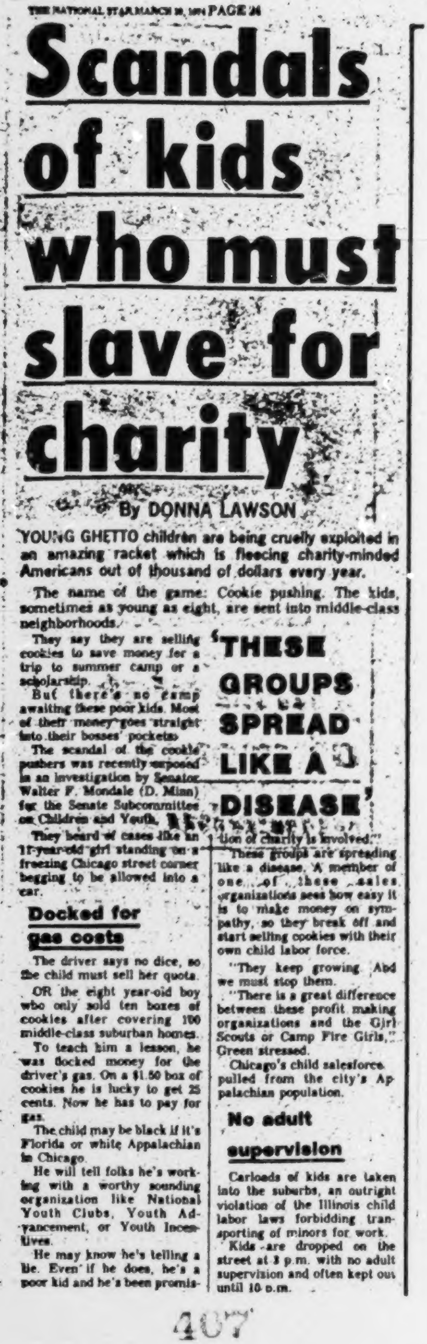
RECORDS submitted by the foundation showed that last year the national foundations, combined with the Asthmatic Children's Foundation of New York and the Asthmatic Children's Foundation of Florida, raised $1,473,934 and had fund-raising and overhead costs of $968,300. Committee staffers said about $800,000 went to the Giesler mail solicitation firm. Nationally, fund-raising and overhead costs last year were 84 percent; they were 40 percent in New York and 46 percent in Florida.

The committee's executive vice president, Israel Friedman of Miami Beach, told Mondale the foundation had never found the costs charged by the Giesler firm to be "excessive.

Giesler once told hom, Friedman added, that his profits amounted to about 5 percent.

DURING the hearing, Mondale introduced an invoice paid by the national foundation on Jan. 18 to cover the costts of a $44,000 mailing by the Giesler firm in New York. If the cost of the mailing were included in the New York records, would the state foundation's fund-raising costs in 1973 have exceeded the 50 percent limit set by New York law? Mondale asked Friedman.

"Yes, it would by a small amount," Friedman answered, acknowledging that a similar arrangement had been made in the past. "As far as the Asthmatic Foundation is concerned, then the (New York) state law is a nullity," Mondale remarked. The committee today will review foundation records with New York and Internal Revenue Service officials.



THE NATIONAL STAR MARCH 30, 1974 PAGE 26

Scandals of kids who must slave for charity

By DONNA LAWSON

YOUNG GHETTO children are being cruelly exploited in an amazing racket which is fleecing charity-minded Americans out of thousand of dollars every year.

The name of the game: Cookie pushing. The kids, sometimes as young as eight, are sent into middle-class neighborhoods.

They say they are selling cookies to save money for a trip to summer camp or a scholarship.

But there's no camp awaiting these poor kids. Most of their money goes straight into their bosses' pockets.

The scandal of the cookie pushers was recently exposed in an investigation by Senator Walter F. Mondale (D. Minn) for the Senate Subcommittee on Children and Youth.

They heard of cases like an 11-year-old girl standing on a freezing Chicago street corner begging to be allowed into a car.

Docked for gas costs

The driver says no dice, so the child must sell her quota.

OR the eight year-old boy who only sold ten boxes of cookies after covering 100 middle-class suburban homes.

To teach him a lesson, he was docked money for the driver's gas. On a $1.50 box of cookies he is lucky to get 25 cents. Now he has to pay for gas.

The child may be black if it's Florida or white Appalachian in Chicago.

He will tell folks he's working with a worthy sounding organization like National Youth Clubs, Youth Advancement, or Youth Incentives.

He may know he's telling a lie. Even if he does, he's a poor kid and he's been promis-

'THESE GROUPS SPREAD LIKE A DISEASE'

tion of charity is involved."

"These groups are spreading like a disease. A member of one of these sales organizations sees how easy it is to make money on sympathy, so they break off and start selling cookies with their own child labor force.

"They keep growing. And we must stop them.

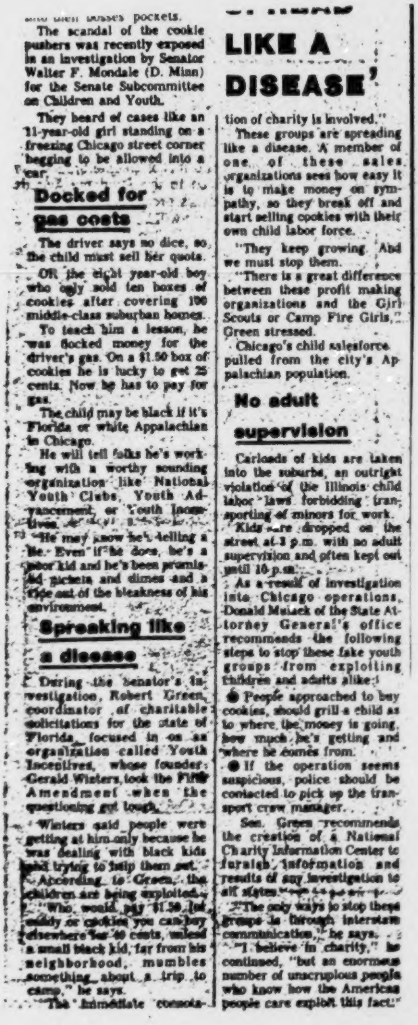
"There is a great difference between these profit making organizations and the Girl Scouts or Camp Fire Girls," Green stressed.

Chicago's child salesforce pulled from the city's Appalachian population.

No adult supervision

Carloads of kids are taken into the suburbs, an outright violation of the Illinois child labor laws forbidding transporting of minors for work.

Kids are dropped on the street at 3 p.m. with no adult supervision and often kept out until 10 p.m.



LIKE A DISEASE'

their bosses' pockets.

The scandal of the cookie pushers was recently exposed in an investigation by Senator Walter F. Mondale (D. Minn) for the Senate Subcommittee on Children and Youth.

They heard of cases like an 11-year-old girl standing on a freezing Chicago street corner begging to be allowed into a car.

Docked for gas costs

The driver says no dice, so the child must sell her quota.

OR the eight year-old boy who only sold ten boxes of cookies after covering 100 middle-class suburban homes.

To teach him a lesson, he was docked money for the driver's gas. On a $1.50 box of cookies he is lucky to get 25 cents. Now he has to pay for gas.

The child may be black if it's Florida or white Appalachian in Chicago.

He will tell folks he's working with a worthy sounding organization like National Youth Clubs, Youth Advancement, or Youth Incentives.

"He may know he's telling a lie. Even if he does, he's a poor kid and he's been promised nickels and dimes and a ride out of the bleakness of his environment.

Spreaking like a disease

During the senator's investigation, Robert Green, coordinator of charitable solicitations for the state of Florida, focused in on an organization called Youth Incentives, whose founder Gerald Winters, took the Fifth Amendment when the questioning got tough.

Winters said people were getting at him only because he was dealing with black kids and trying to help them out.

According to Green, the children are being exploited.

"Who would pay $1.50 for candy or cookies you can buy elsewhere for 40 cents, unless a small black kid, far from his neighborhood, mumbles something about a trip to camp," he says.

"The immediate connotation of charity is involved."

These groups are spreading like a disease. A member of one of these sales organizations sees how easy it is to make money on sympathy, so they break off and start selling cookies with their own child labor force.

"They keep growing. And we must stop them.

"There is a great difference between these profit making organizations and the Girl Scouts or Camp Fire Girls," Green stressed.

Chicago's child salesforce pulled from the city's Appalachian population.

No adult supervision

Carloads of kids are taken into the suburbs, an outright violation of the Illinois child labor laws forbidding transporting of minors for work.

Kids are dropped on the street at 3 p.m. with no adult supervision and often kept out until 10 p.m.

As a result of investigation into Chicago operations, Donald Mulack of the State Attorney General's office recommends the following steps to stop these fake youth groups from exploiting children and adults alike:

- People approached to buy cookies, should grill a child as to where the money is going, how much he's getting and where he comes from.
- If the operation seems suspicious, police should be contacted to pick up the transport crew manager.

Sen. Green recommends the creation of a National Charity Information Center to furnish information and results of any investigation to all states.

"The only ways to stop these groups is through interstate communication," he says.

"I believe in charity," he continued, "but an enormous number of unscrupulous people who know how the American people care exploit this fact."

Scene

Kids: Pawns in a Cookie Hustle?

By Judith Martin

> "Children who come to your door with boxes of sweets may be unwitting agents of organizations bilking the public, witnesses said at hearings yesterday."

Cookie pushers are being investigated by the Senate Subcommittee on Children and Youth.

Children who come to your door with boxes of sweets to sell for some worthy-sounding cause may be the unwitting agents of organizations bilking the public, witnesses said at hearings conducted yesterday by Sen. Walter F. Mondale (D-Minn.).

"What better way can an organization achieve a sales staff without having to pay people to sell their products, without the engaging of regular sales personnel, in competition with business corporations who pay taxes and pay their selling staff normal wages" said James C. Amico coordinator of charitable organizations for the state of New Jersey.

He described a number of such organizations which, he charged, claim tax exemptions as charities but are actually affiliated with candy companies or other profit-making businesses, exploiting children as cheap and effective salespeople.

Amico and Robert Green, coordinator of charitable solicitations of the state of Florida, both focused on an organization called Youth Incentives, whose founder, Gerald Winters, angrily broke off his voluntary testimony yesterday by taking the Fifth Amendment.

Youth Incentives, which has operated in many states, disbanded in Florida after failing to comply with the state's Charitable Funds Act, Green said. But he added that some of the same people were involved in the same activity afterwards, in organizations called Youth Initiatives and Inner-City Youth Corps.

He described opening his own door last January to a child representing Youth Incentives, and being offered a box of peanut brittle for $1.50. The cause: helping keep children off the streets, promoting a youth center and sending ghetto children to Disney World.

The candy would have sold for 49 cents in a store, and was cracked and stale, Green said. And the organization never demonstrated that any of the child-oriented causes received any money.

"There is a big difference between the candy sales made by Boy Scouts, Girl Scouts or school organizations, since these are closely supervised by adults and performed within the neighborhood for an organization registered and known to each one of them," he said.

But Youth Incentives "transports these black children from neighborhood to neighborhood and in some instances from county to county, and many times leaves them abandoned," Green charged. "Supervision is not exercised since their so-called supervisors leave the children at various locations at 2 or 3 p.m. and do not see them until 8 p.m., at which time they pick them up."

In his prepared statement, Winters said that the purpose of Youth Incentives was to teach ghetto children the use of money, give them work experience, expose them to different environments, develop their character and keep them out of trouble.

Amico suggested that charters of supposedly charitable organizations needed to be made more stringent, and that broadly stated objectives, such as "aiding underprivileged children," be examined carefully.

TO: Senator Walter F. Mondale
United States Senate
Committee on Labor and Public Welfare
Subcommittee on Children and Youth

DATE: April 4, 1974

FROM: James C. Amico, Coordinator
State of New Jersey
Department of Law and Public Safety
Division of Consumer Affairs
Charities Registration Section

RE: Legislative Recommendations as per Senate Subcommittee Request

We list below some of the recommendations with regard to the employment of children and youth in the charitable fund raising area.

During the course of our testimony in Washington, a great deal of thought was given to cases where youth was employed in the selling of candies. It was generally stated by the people who testified that they were creating work necessary for youth, keeping them occupied and off the streets, thereby generating the feeling that they were being benevolent toward the children. I have to question the fact that if these people were so benevolent in their approach to sales, then why don't they carry this through and pay them the full minimum wage that the law requires when the children are working in a competitive position as would an adult. We do not differentiate between work for adults and work for children because many adults do tasks that children can perform and children do tasks that adults can perform. The companies that employ youth, we find in most cases, are competitive to profit-oriented business corporations who employ regular staffs at prevailing wages and pay appropriate taxes. We, therefore, believe that youth employed in selling a product, regardless of the nature of the organization, must receive a minimum wage and be covered by all the fringe benefits that any other employee would be entitled to during the time of employment. These organizations must comply with all the rules of that particular State and those of the Federal government.

We, further, believe that the children and youths should be issued a Social Security number. It might appear that these organizations would be exempt from filing a Social Security report for these youths, however, I think an exception must be made in this area which would require them to file when they employ youths, regardless of the fact that it might be temporary employment. The reason for this would be to the benefit of the youths in the long run. Why are the youths working? Because: 1. They think they are doing possible good; 2. They want to earn some spending money; and 3. They want to earn money for future education. This type of thinking can be considered beneficial when one is to think that a youth could save money due to being paid proper wages and not working all day long and getting 30¢ or more for selling a box of candy. With a reporting system of this nature, the youth is protected and that some income may inure to him at a future date as a result of his efforts in his early youth.

We, further, believe that no youth under the age of nine (9) or ten (10) should be employed in any field of employment whatsoever.

We believe, further, that employers and supervisors of youths, if they are to be employed in areas of selling products from door to door, must be duly registered with the appropriate department of government. It would be the Department of Labor, and, also, with the State Division of Charities Registration. Their records and character should be examined and they must be aware that they are in a position where they are completely responsible for the children or youths from the time they leave their homes to the time they are returned there.

We believe that the Federal government should establish an Office of Non-Profit and Charitable Institutions, perhaps within the Department of Labor and Welfare:

1. To coordinate with the States rules and regulations which would make it a Federal offense when organizations leap from State to State to escape prosecution under charitable solicitation laws;
2. To assist in the preparation of regulations for uniform accounting and reporting;
3. To promulgate certain standards under which charities should operate;
4. To disseminate information and receive information to and from the States;
5. To continually channel from the various States to this particular Federal division would enhance an opportunity for proper legislation and would expedite same;
6. To protect many prominent Federal officials, such as, presidents, senators, congressman, etc. from lending their names to organizations with which they are not completely familiar;
7. To adopt a uniform system throughout the States whereas prominent individuals receive the necessary forms which authorize the use of their names in solicitations;
8. To provide for better communication between other State offices and Federal offices, such as, the Internal Revenue Service, etc.; and, finally
9. This Federal office can be an invaluable source of information which could effectuate tax reforms at some future date. It could be helpful in making future contemplated tax reform and determination of

BEST COPY AVAILABLE

> classifications as to where and how much moneys are employed in the trust area, how much is employed in the non-profit institutions, how much in the charitable area and how much is solicited. The coordination of this information can be vital to our Congress in future legislation.

Further, it is the personal opinion of the writer that no charitable organization should be exempt from registration with the States or with the Federal government and the Internal Revenue Department.

In the long run, I feel the implementation of these recommendations will achieve the desires that all good people want and that we, in government, will have preserved the human character of charitableness and benevolency by adding credibility by means of standards and reporting systems.

We have tried to be brief in this report to you, however, if you wish further information as to the details of these recommendations, please do not hesitate to call on us and we will be glad to elaborate.

James C. Amico

ILLINOIS CHARITABLE ORGANIZATION LAWS

AUG. 26th 1818

WILLIAM J. SCOTT
ATTORNEY GENERAL
STATE OF ILLINOIS

ILLINOIS CHARITABLE ORGANIZATION LAWS

TABLE OF CONTENTS

Page

Foreword: Summary of Illinois Charitable Organization Laws 3

Attorney General's Rules and Regulations

I. General 8

II. Illinois Charitable Trust Act.

A. General and Definitions 9
B. Exemptions 10
C. Registration 10
D. Reporting 11
E. Public Records 12

III. Illinois Solicitation Act.

A. General and Definitions 12
B. Registration 13
C. Exemptions 14
D. Not subject organization 14
E. Reporting 16
F. Professional Fund Raisers 17
G. Professional Solicitors 17
H. Public Records 17
I. Registration not an endorsement 17
J. Copies of Public Records 18

Text of the Illinois Charitable Trust Act of 1961, as amended 19

Text of "An Act to Regulate Solicitation and Collection of funds for Charitable Purposes", 1963, as amended 23

The Attorney General's Division of Charitable Trusts and Solicitations has, as its primary mission, the safeguarding of funds contributed to charity by generous Illinoisans.

Not only does the Division constantly review the activities, financial affairs and administration of charitable organizations and trusts, but it makes this information available to the public. You may call the Division in Chicago (793-2595) or in Springfield (525-1090). The registrations and annual reports of charitable organizations are available for public inspection.

This activity assures that intended recipients of this generosity will benefit to the fullest from contributed funds or charitable trusts.

William J Scott

Attorney General
of the State of Illinois

FOREWORD

This pamphlet contains two statutes which regulate the activities of Illinois charitable organizations. These statutes are the Illinois Charitable Trust Act of 1961, as amended, and "An Act to Regulate Solicitation and Collection of Funds for Charitable Purposes" (hereafter the Illinois Solicitation Act). Both of these statutes are administered by the Attorney General. The Attorney General's Division of Charitable Trusts and Solicitations has offices in Springfield, Illinois and Chicago, Illinois. Both of these Acts are comparatively recent developments of Illinois law. These Acts are basically registration and reporting Acts whose purpose is to provide the Attorney General with information to enable him to fulfill his common law duty of protecting charitable trusts. Charitable funds were given special status at common law and are given special recognition in Illinois. There are several reasons for this.

First, these funds are dedicated to the purpose of providing benefits for the public.

Second, these funds are given privileges and exemptions not given to the property held by ordinary citizens. In many cases they are exempt from taxation and are exempt from the rule against perpetuities.

Third, the Attorney General is assigned the duty of seeing that these funds are properly administered. However, the Attorney General's representation of the public in this matter was many times frustrated by a lack of information about these trusts. Trustees were under no duty to notify the Attorney General of their existence or of their compliance with the terms of the trust. It was to close this informational gap that the Illinois Charitable Trust Act was enacted.

The Illinois Charitable Trust Act was enacted in 1961. It requires that trustees who hold assets for charitable purposes whose value exceed $4,000, must register and report annually. "Trustee" is defined to include all types of legal entities who hold funds for charitable purposes. Not for profit corporations are included in this definition. The Illinois Courts give special care and protection to charitable trusts and have long given a broad definition to the term "charity". In *Crerar et al.* v. *Williams, et al.*, 145 Ill. 625, "charity" is defined as:

> "A charity, in a legal sense, may be defined as a gift to be applied, consistently with existing laws, for the benefit of an indefinite number of persons, either by bringing their hearts under the influence of education or religion, by relieving their bodies from disease, suffering or constraint, by assisting them to establish themselves for life, or by erecting or maintaining public buildings or works, or otherwise bearing the burdens of government. It is immaterial whether the purpose is called charitable in the gift, if it is so described as to show that it is charitable in its nature."

By this definition it is apparent that almost any activity which would benefit some indefinite but recognizable segment of the public would be considered charitable.

In most cases there is no question as to whether an organization is charitable. However, in the case of benevolent societies which perform some charitable activity the question frequently arises. Membership organizations devoted to the service of their members and the promotion of private and fraternal social interests are not charities even though they perform charitable services as incidental to their main purpose. The assets of these organizations are held for their general corporate purposes and are not devoted to charities. However these organizations may become subject to the Charitable Trust Act if they receive funds to be used for some specific charitable purpose. These organizations would then be acting as trustee and not as a fraternal or social organization.

The Illinois Charitable Trust Act provides for the registration of these trusts and for annual reports of their financial condition and charitable activities. The only exceptions are given to religious groups and organizations actually operating schools, hospitals, homes for the aged and cemeteries. Banks are excused from the reporting requirements of the Act. The result of this legislation is to provide the Attorney General with information concerning the existence and operation of Illinois charitable trusts. Without this information it would be almost impossible for him to fulfill his common law duty of supervision of these trusts. The charitable trust registration and periodic reports are public records which may be inspected by interested members of the public. The Charitable Trust Act provides a means by which the public supervision of funds which have been devoted to charitable purposes can be insured. It also discourages trustee abuse and encourages the prompt application of the income from these funds to the charitable purposes for which it was intended.

The Illinois Solicitation Act was originally enacted in 1963. It provides for the registration and annual reporting of organizations which solicit funds in Illinois. This Act is intended to regulate those charitable organizations which derive their support from the public by compelling them to make a public accounting for these funds. It was the purpose of the Act to provide both the public and the Attorney General with information about these charities. Also, the Act should prevent fraudulent charities from operating in Illinois. Other provisions of this Act regulate the activities of professional fund raisers and solicitors.

The purpose of the Act is twofold:

First, it provides the Attorney General with the information necessary for him to oversee the collection and dispersal of the Illinois charitable dollar.

Second, it provides the public with a central source of information where they can quickly obtain detailed information on the fund raising, administrative and other expenses of a charity. They can also obtain an idea of the scope of the charity's operations. This information allows the Illinois citizens to intelligently determine whether a charity is worthy of support.

The people of Illinois are deluged each year with appeals to their charitable nature. These appeals come in many forms from the United Fund pledge to the receipt of unsolicited merchandise through the mails. Their response is generous and many millions of dollars change hands every year. Most of this money is used for the purposes for which it is intended. However, some of this money finds its way into the pockets of persons who use the facade of charity or who use a charity solely to drain it through high expenses. Each appeal is poignant and moving and seems to be worthy of support. Unless the donor has personal knowledge of the charity and its activities he cannot know what portion of his dollar will serve the intended purpose and what proportion will be paid to professional fund raisers or used up in administrative and fund raising expenses. The Illinois Solicitation Act makes this information accessible to the public.

The information on registered charities is readily available to the public. Anyone interested in the status of a particular charity can call the Division of Charitable Trusts in either Chicago or Springfield. The registrations and annual reports are public information and may be inspected in my office during ordinary business hours.

Organizations subject to the Illinois Solicitation Act may not legally solicit in Illinois without first filing a registration statement with the Attorney General. This statement must contain complete information on the organization, its officers and operations. This Act, with certain limited exceptions, covers all organizations which solicit more than $4,000, annually. These exceptions are contained in Section 3 of the Act and by the Attorney General's Rules and Regulations numbers 58-77.

Organizations registered under the Illinois Solicitation Act are required to file detailed financial reports. A review of this report enables the Attorney General's office to check on the proper utilization of charitable funds. In the case of large organizations which collect more than $10,000, annually, the financial statement filed with the Attorney General's office must be accompanied by the statement of a certified public accountant that the report accurately reflects the activities of the organization.

Another informational aspect of the Illinois Solicitation Act is its regulation of the activities of professional fund raisers. These persons are professionals whose business is collecting money for charities. Many times these persons handle great sums of money. The registration and bonding requirements of the Act are efforts to prevent dishonesty by professional fund raisers and to provide some protections for the charitable organizations which employ them. Professional fund raising contracts are required to be filed with the Attorney General. This enables him to check the percentages of funds which are received by the charity and the professional fund raiser. The Attorney General has uncovered cases where less than 25% of the gross contributions are ever devoted to a charitable purpose.

The above is a summary of the two Illinois Charitable organization laws. It also gives some insight into their purposes. It is important to note that each of these Acts regulate some aspect of the operations of charitable organizations in Illinois. They are separate and distinct statutes.

An organization may be subject to either, both or neither of these Acts depending upon its circumstances and operation. In considering whether an organization is required to register under either or both of these Acts, the separate requirements and exemptions of each Act must be considered.

It is my intention that the stautes reproduced in this book and the Rules and Regulations which I have promulgated for their administration will answer most of the questions which might be raised in connection with the application and administration of these statutes. However, should any question about the coverage or interpretation arise, my Division of Chariable Trust and Solicitations will be happy to assist you. Please contact them in Springfield, Illinois, Attorney General Building 500 South Second Street, Zip Code 62706, Telephone 525-1090 or in Chicago, Illinois, 188 W. Randolph, Room 2200 Zip Code 60601, Telephone 793-2595.

It is not my desire to penalize charitable organizations or to create administrative burdens which will unduly hamper their operations. However, I have been charged by the Legislature with the enforcement of these Acts and I will fulfill that duty. My office will make every effort to cooperate with subject organizations and aid them in compliance with these Acts. It is my belief that these Acts will benefit all Illinois through the prevention of fraudulent use of charitable funds and by assuring the prompt application of charitable funds to their intended purposes.

WILLIAM J. SCOTT
ATTORNEY GENERAL
STATE OF ILLINOIS

RULES AND REGULATIONS UNDER THE ILLINOIS CHARITABLE TRUST ACT AND "AN ACT TO REGULATE SOLICITATION AND COLLECTION OF FUNDS FOR CHARITABLE PURPOSES"

By virtue of the authority invested in the Attorney General under the provisions of the Illinois Charitable Trust Act, approved July 31, 1961, as amended, and "An Act to Regulate Solicitation and Collection of Funds for Charitable Purposes", approved July 26, 1963, as amended, the Attorney General of the State of Illinois hereby promulgates the following Rules and Regulations to provide for the creation in the office of the Attorney General of a Division of Charitable Trusts and Solicitations to set forth the regulations necessary to the implementation of the provisions of the Illinois Charitable Trust Act and "An Act to Regulate Solicitation and Collection of Funds for Charitable Purposes" and also to supersede as of the effective date of these Rules the Attorney General's Rules and Regulations under the Illinois Charitable Trust Act and "An Act to Regulate Solicitation and Collection of Funds for Charitable Purposes" promulgated February 24, 1970.

I.

GENERAL RULES — DIVISION OF CHARITABLE TRUSTS AND SOLICITATIONS

1. There is established in the office of the Attorney General of the State of Illinois a Division of Charitable Trusts and Solicitations.

2. This Division will maintain offices in Springfield and Chicago.

3. "An Act to Regulate Solicitation and Collection of Funds for Charitable Purposes" will be referred to in these Rules and Regulations as the "Illinos Solicitation Act".

4. The Division of Charitable Trusts and Solicitations will be referred to as "the Division".

5. All registrations and reports under the Illinois Charitable Trust Act and the Illinois Solicitation Act must be made in duplicate upon forms prescribed by the Division unless otherwise provided in these Rules and Regulations. Registrations and reports should be filed in the Springfield office of the Division.

6. The Attorney General may amend these rules from time to time and at any time.

II.

ILLINOIS CHARITABLE TRUST ACT OF 1961, AS AMENDED

A. General and Definitions

7. The Springfield office of the Division will maintain the principal register of charitable trusts registered under the Illinois Charitable Trust Act.

8. The register of charitable trusts will contain a list of all the trustees registered under the Illinois Charitable Trust Act.

9. The Chicago office of the Division will also maintain a register of charitable trusts. Matters involving a trust registered in the Counties of Cook, Lake, McHenry and DuPage will be handled through that office.

10. "Trustee" is any person, group of persons or other legal entity who holds property for charitable purposes.

11. "Charitable Purposes" includes without limitation any funds which are to be applied for the benefit of an indefinite number of people to provide them with:

A. Education.

B. The benefit of religion.

C. Relief from poverty, sickness or disease.

D. A means of establishing themselves in life.

E. Public buildings or recreational activities, or

F. Services which lessen the burden of government.

12. "Charitable Trusts" means any relationship whereby real or personal property is held for a charitable purpose or purposes.

13. A Charitable Remainder Trust is one where the income goes to the donor or designated individual for life, with remainder to an operating charity on the death of the life tenant. The Trust must be irrevocable, as to the remainder, to fall within this regulation. Registration is required of all such trusts. A Charitable Remainder Trust may qualify for alteration of the reporting requirement pursuant to Rules 41 through 44.

14. A trustee holds property when he has title or possession of the property and controls its distribution subject to conditions which devote the property to a charitable purpose. A custodian or depository does not hold property.

15. Trustees who hold property for charitable purposes with a value exceeding $4,000, are required to register.

16. For the purposes of registration, the value of a trust's assets is fair market value.

17. Where the value of trust assets fluctuate, the value is determined by its greatest value during the year or the total amount disbursed, whichever is greater.

B. Exemptions

18. The Federal, State and local governments and their duly authorized agencies and subdivisions are exempt from the registration requirements of the Illinois Charitable Trust Act.

19. Religious bodies and their affiliated agencies are exempt from the registration requirements of the Illinois Charitable Trust Act.

20. Individual officers and directors of religious bodies who hold property in their official capacity are exempt from registration under the Illinois Charitable Trust Act.

21. Trustees who hold property for the purpose of and who are actually operating schools, hospitals, homes for the aged and cemeteries are exempt from the registration requirements of the Illinois Charitable Trust Act provided that if the charitable trust is engaged in non-exempt activities, it is required to register for those activities.

C. Registration

22. A trustee subject to this Act must file with the Attorney General a registration statement within six (6) months after the property is received for charitable purposes.

23. Charitable Trusts in existence on July 31, 1961, were required to be registered by January 1, 1962.

24. To register, a charitable trust must file in duplicate a completed registration statement and the appropriate attachments. All registrations must be accompanied by copies of the instrument under which the property is administered and a financial statement. Where there is no written instrument, the trustee must prepare an affidavit setting forth the conditions of the trust. The registration must be made by the trustee. In the case of a corporate charitable trust, the president and the treasurer must sign.

25. When a charitable trust combines the interest of living private individuals with charitable interests, confidential registration may be made.

26. A confidential registration statement shall contain the information required by Rule 24 and also two (2) additional copies of the trust instrument from which are deleted the names of the individual beneficiaries.

27. If an organization applies for an exemption from either State or Federal taxation, copies of this application and any determination shall be included in the registration statement.

28. When a bank or trust company is trustee or co-trustee of a charitable trust, it need not supply a schedule of assets with the registration statement.

29. The trustee shall notify the Attorney General of any changes in the registration information within thirty (30) days of the changes.

D. Annual Report

30. All trustees, with the exception of bank and trust companies, must file annual financial reports with the Attorney General.

31. Unless excused by the Attorney General, the financial report must cover the most recent calendar or fiscal year of the charitable trust.

32. The annual financial report is due six (6) months after the close of that organization's fiscal or calendar year.

33. Financial reports are to be made on the forms provided by the Division unless an alternate filing as provided in Rules 36-40 is made.

34. The truth of all financial reports shall be attested by a trustee or corporate officer and the signature properly notarized.

35. The report of organizations which have securities with a market value exceeding $50,000 must contain a schedule of the securities showing the securities held, their cost and current market value.

36. A tax exempt organization may submit copies of the Internal Revenue Service form (now 990 or 990 PF) and all Federal attachments in lieu of completing the Attorney General's report form provided it is executed in the manner required by Rule 34. Federal regulations now require private foundations to furnish the Attorney General with the above.

37. A report filed with an Illinois court having supervision and jurisdiction of the trust may be substituted for the report required by Rule 30.

38. An annual report prepared by a certified public accountant may be substituted for the report required by Rule 30 provided it contains substantially all the information required by the Attorney General's annual report form and is attested as required by Rule 34.

39. An annual statement by an Illinois bank or trust company may be substituted for the report required by Rule 30 provided it contains substantially all the information required in the Attorney

General's annual report form and is attested as required by Rule 34.

40. Organizations registered under both the Illinois Charitable Trust Act and the Illinois Solicitation Act which file the annual report required by the Illinois Solicitation Act are not required to file a report under the Illinois Charitable Trust Act.

41. An organization may alter its fiscal year upon written notice to the office of the Attorney General and after providing whatever financial reports are necessary to furnish a complete picture of its operation.

42. The Attorney General may, for good reason, alter or suspend the reporting period of a charitable trust for a reasonable and specifically designated time.

43. Anyone requesting a change in reporting period or suspension of the reporting requirement shall file a written request with the Attorney General setting forth the reasons for the request and accompanied by a financial report showing the current financial condition of the trust. These applications shall be submitted to the Springfield office of the Division.

44. The Attorney General will make a written determination on the request. The request will only be granted if the beneficiary will not be prejudiced and periodic reporting is not required for the proper supervision of the trust.

E. Public Records

45. The registrations and annual reports, except confidential ones, made with the Division are public records. They may be examined by interested members of the public in the office of the Attorney General during ordinary business hours.

III.

THE ILLINOIS SOLICITATION ACT

A. General and Definitions

46. The Division maintains a file of all charitable organizations, professional fund raisers and professional solicitors registered under the Illinois Solicitation Act at both its Chicago and Springfield offices.

47. The words used in these Rules are used with the same meaning assigned to them by statute unless clarified below.

48. "Contributions" means the gross amount of money raised and not merely the portion which after expenses is devoted to the charity.

49. "Charitable purposes" means any charitable, benevolent, philanthropic, patriotic, or eleemosynary purpose and includes the conduct described in Rule 11.

B. Registration

50. Any charitable organization which solicits in Illinois must first register with the Attorney General unless it is exempted under Section 3(a) of the Illinois Solicitation Act or is not subject pursuant to the provisions of Section 3(b) of that Act.

51. To register, a charitable organization must file in duplicate completed registration statements and the appropriate attachments. All registrations must be accompanied by copies of the instrument under which the property is administered and a financial statement. If the organization employs a professional fund raiser, duplicate copies of its contract with the professional fund raiser must accompany the registration statement.

52. No professional fund raiser may act in Illinois without prior registration with the Attorney General.

53. No professional solicitor may act in Illinois without prior registration with the Attorney General. No person may register as a professional solicitor unless he is employed by a registered professional fund raiser.

54. To register, a professional fund raiser must file in duplicate a completed registration statement, copies of all Illinois fund raising contracts and a professional fund raiser's bond.

55. The professional fund raiser's bond in the amount of $5,000, expiring upon the next June 30, issued with the professional fund raiser as principal and a corporate surety licensed to do business in Illinois, as surety, must accompany the registration. The bond must be in the form provided by the Division.

56. To register, a professional solicitor must file in duplicate completed registration statements.

57. A registrant shall notify the Attorney General of any change in registration information within ten (10) days of the change.

C. Religious Exemptions

58. Religious organizations are subject to the Illinois Solicitation Act unless they have been exempted pursuant to the provisions of Section 3 (a).

59. To qualify for a religious exemption, an organization must file in duplicate a completed registration statement and religious questionnaire.

60. The Attorney General may require the organization to supply such supplemental information as is necessary to determine its religious character.

61. The Attorney General may issue either a blanket or an individual religious exemption.

62. An individual religious exemption covers a single named religious group.

63. A blanket religious exemption is issued to and upon the request of the central body of a church or denomination and covers the church and all of the affiliated agencies listed in the exemption request.

64. Any religious organization with multiple subdivisions may request a blanket exemption.

65. An application for a blanket religious exemption must be filed by the central governing authority of the church and shall contain the information required by Rule 59 and also a list of the affiliated organizations and agencies which are directed and controlled by the central church.

66. If upon the filing of an application for religious exemption, the Attorney General determines that the organization is a religious one within the definition of Section 3(a) and that its purposes are actual and genuine, he will issue a religious exemption.

67. Organizations receiving blanket exemptions shall periodically supply the Attorney General with current lists of their affiliates.

D. Not Subject Organizations

68. Organizations which comply with the requirements of Rules 69 through 77 need not register under the Illinois Solicitation Act. However, this does not necessarily exempt them from the Illinois Charitable Trust Act.

69. Any charitable organization which solicits less than $4,000, annually and does not employ a professional fund raiser, need not register.

70. Any charitable organization which receives its funds from a United or Community Fund and does not independently solicit $4,000, or employ a professional fund raiser, need not register.

71. Educational institutions and foundations having an established identity with an educational institution which fall within one or more of the following categories need not register:

(a) The University of Illinois, Southern Illinois University, Eastern Illinois University, Illinois State University, Northern Illinois University and Western Illinois University.

(b) All educational institutions that are recognized by the State Superintendent of Public Instruction.

(c) All educational institutions accredited by a regional or national accrediting association or by an organization affiliated with the National Commission on Accrediting.

(d) All educational institutions which confine their solicitation to students, faculty, trustees and their respective families.

72. Libraries which are established under State law and which file the annual reports required by law, need not register.

73. Fraternal, patriotic and similar organizations which confine their solicitation to their membership, need not register.

74. Persons conducting a personal benefit need not register provided that they are unpaid for their services and that the contributions, after expenses, are turned over to the named beneficiary.

75. Volunteer firemen and their auxiliaries, nurseries for infants awaiting adoption and their affiliates need not register provided that their solicitations are conducted by their members and that the members are not paid for their services.

76. Any charitable organization organized by and reporting annually to the Congress of the United States need not register provided that its annual financial report is audited by the Federal government.

77. The Boy's Club of America and its affiliates need not register provided they file the annual reports required by the national organization and that the national organization makes the reports required by its charter.

E. Annual Reports

78. All charitable organizations registered under the Illinois Solicitation Act must file in duplicate an annual financial report signed by the president or other authorized officer and the chief fiscal officer.

79. Organizations which solicit more than $10,000, or which employ a professional fund raiser must complete the entire report form including the certification of an independent certified public accountant.

80. Charitable organizations which have made a consolidated registration pursuant to Section 2(g) of the Illinois Solicitation Act shall include in their annual report such additional detailed financial information as will fairly represent the financial position of each of the affiliated groups.

81. Organizations which solicit less than $10,000, annually and do not employ a professional fund raiser need only complete the applicable items of the report form and the certification of an independent certified public accountant need not be made.

82. For the purposes of these reports, $10,000, means $10,000, of contributions in public support and does not include bequests, community fund receipts and governmental grants.

83. Any registered organization which during its fical year does not solicit funds or whose solicitation is of such a nature that it would not have been required to register (see Rules 69-77) may in lieu of the annual financial report file an affidavit setting forth these facts and which is signed by the president or other authorized officer and the chief fiscal officer.

84. The annual financial report is due six (6) months after the close of the organization's fiscal or calendar year.

85. The Attorney General may, upon written request, extend the time for the filing of the annual report for a period not to exceed three (3) months.

86. The registration of an organization is subject to cancellation for failure to file a timely and complete financial report.

87. An organization whose registration is being cancelled for failure to file the required financial report will receive 15 days notice of the cancellation.

F. Professional Fund Raisers

88. The registration of all professional fund raisers expires on the next June 30th following their registration.

89. A registered professional fund raiser who wishes to continue to act as professional fund raiser in Illinois must reregister on or before July 1 of the year in which his registration expires.

90. To reregister, a professional fund raiser must file in duplicate a completed reregistration statement, annual financial report and professional fund raiser bond which meets the requirements of Rule 55 for the period beginning July 1 and ending June 30 of the next year.

91. All Illinois professional fund raisers must file duplicate copies of the professional fund raising contracts within ten (10) days of their execution.

92. All charitable organizations and professional fund raisers shall retain copies of their professional fund raising contracts for three (3) years following the completion of the contract.

G. Professional Solicitors

93. The registration of all professional solicitors shall expire on the next June 30th following their registration.

94. A registered professional solicitor who intends to continue to act as a professional solicitor in Illinois must reregister on or before July 1 of the year in which his registration expires.

95. To reregister a professional solicitor must file in duplicate a completed reregistration statement.

H. Public Records

96. All registrations and reports filed with the Attorney General under the Illinois Solicitation Act are public records and may be inspected in the office of the Attorney General during ordinary business hours.

I. Registration not an endorsement

97. Any representation by a charitable organization, professional fund raiser, or professional solicitor in connection with its solicitation that it is registered or has otherwise complied with the Illinois Solicitation Act is unlawful.

98. The Attorney General may immediately cancel the registration of any person or organization violating Rule 97.

J. Copies of Public Records

99. Copies of information which is a public record under Rules 45 and 96 may be obtained by submitting a written request in duplicate to the Attorney General enumerating the document requested and the number of copies desired. Copies will be ordered from a commercial copying service with billing being made directly from the copying service to the person ordering the copies.

Approved and Promulgated by
me this 12th day of July, 1973.
WILLIAM J. SCOTT
Attorney General
State of Illinois

CHARITABLE TRUST ACT OF 1961, AS AMENDED

An Act providing for the reporting of and the enforcement of certain charitable trusts.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 1. This Act may be cited as Charitable Trust Act.

Section 2. This Act applies to any trustee, as defined in Section 3, holding property of value in excess of $4,000.

Section 3. "Trustee" means any individual, group of individuals, corporation or other legal entity holding property for any charitable purpose.

Section 4. This Act does not apply to the United States, any State, territory or possession of the United States, the District of Columbia, the Commonwealth of Puerto Rico, or to any of their agencies or to any governmental subdivision; or to a corporation sole, or other religious corporation, trust or organization which holds property for religious, charitable, hospital or educational purposes or the purpose of operating cemeteries or a home or homes for the aged; nor to any agency or organization, incorporated or unincorporated, affiliated with and directly supervised by such a religious corporation or organization; or to an officer, director or trustee of any such religious corporation, trust or organization who holds property in his official capacity for like purposes; or to a charitable organization, foundation, trust or corporation organized for the purpose of and engaged in the operation of schools or hospitals, or for the purpose of operating a cemetery or cemeteries or a home or homes for the aged.

Section 5. The Attorney General shall establish and maintain a register of trustees subject to this Act and of the particular trust or other relationship under which they hold property for charitable purposes and, to that end, shall conduct whatever investigation is necessary, and shall obtain from public records, court officers, taxing authorities, trustees and other sources, copies of instruments, reports and records and whatever information is needed for the establishment and maintenance of the register.

Section 6. Every trustee subject to this Act who has received property for charitable purposes shall file with the Attorney General, within 6 months after any part of the income or principal is received for application to the charitable purpose, a copy of the trust agreement, articles of incorporation or other written instrument, if any, providing for his title, powers or duties. In the event a trustee subject to this Act is holding property for charitable purposes under no such written instrument, such trustee nevertheless shall file, in lieu of such instrument, a statement in writing setting forth his title, powers and duties with respect to the property he is so holding. If any part of the income or principal is authorized or required to be applied to the charitable purpose at the time this Act takes effect, the filing shall be made within 6 months thereafter. Upon complying with the requirement of this Section, Banks and Trust Companies, authorized to accept and execute trusts in this State, and an individual or individuals duly appointed, qualified and acting as co-fiduciary or co-fiduciaries with any such Bank or Trust Company, shall be exempt from all other provisions and requirements of this Act.

Section 7. **(a)** Except as otherwise provided, every trustee subject to this Act shall, in addition to filing copies of the instruments previously required, file with the Attorney General periodic written reports under oath, setting forth information as to the nature of the assets held for charitable purposes and the administration thereof by the trustee, in accordance with rules and regulations of the Attorney General.

(b) The Attorney General shall make rules and regulations as to the time for filing reports, the contents thereof, and the manner of executing and filing them. He may classify trusts and other relationships concerning property held for a charitable purpose as to purpose, nature of assets, duration of the trust or other relationship, amount of assets, amounts to be devoted to charitable purposes, nature of trustee, or otherwise, and may establish different rules for the different classes as to time and nature of the reports required to the ends (1) that he shall receive reasonably current, periodic reports as to all charitable trusts or other relationships of a similar nature, which will enable him to ascertain whether they are being properly administered, and (2) that periodic reports shall not unreasonably add to the expense of the administration of charitable trusts and similar relationships. The Attorney General may suspend the filing of reports as to a particular charitable trust or relationship for a reasonable, specifically designated time upon written application of the trustee filed with the Attorney General and after the Attorney General has filed in the register of charitable trusts a written statement that the interests of the beneficiaries will not be prejudiced thereby and that periodic reports are not required for proper supervision by his office.

(c) A copy of an account filed by the trustee in any court having jurisdiction of the trust or other relationship; if the account has been approved by the court in which it was filed, may be filed as a report required by this Section.

(d) The first report for a trust or similar relationship hereafter established, unless the filing thereof is suspended as herein provided, shall be filed not later than one year after any part of the income or principal is authorized or required to be applied to a charitable purpose. If any part of the income or principal of a trust previously established is authorized or required to be applied to a charitable purpose at the time this Act takes effect, the first report, unless the filing thereof is suspended, shall be filed within 6 months after the effective date of this Act.

(e) The periodic reporting provisions of this Act do not apply to any trustee of a trust which is the subject matter of an adversary proceeding pending in a court of competent jurisdiction in this State. However, upon commencement of the proceeding the trustee shall file a report with the Attorney General informing him of that fact together with the title and number of the cause and the name of the court. Upon entry of final decree in the cause the trustee shall in like manner report that fact to the Attorney General.

Section 8. The Attorney General may make additional rules and regulations necessary for the administration of this Act.

Section 9. The Attorney General may investigate transactions and relationships of trustees subject to this Act for the purpose of determining whether the property held for charitable purposes is properly administered. He may require any agent, trustee, fiduciary, beneficiary, institution, association, or corporation, or other person to appear, at a named time and place, in the county designated by the Attorney General, where the person resides or is found, to give information under oath and to produce books, memoranda, papers, documents of title and evidence of assets, liability, receipts, or disbursements in the possession or control of the person ordered to appear.

Section 10. When the Attorney General requires the attendance of any person, as provided in Section 9, he shall issue an order setting forth the time when and the place where attendance is required and shall cause the same to be served upon the person in the manner provided for service of process in civil cases at least 14 days before the date fixed for attendance. Such order shall have the same force and effect as a subpoena and, upon application of the Attorney General, obedience to the order may be enforced by any court having jurisdiction of charitable trusts in the county where the person receiving it resides or is found, in the same manner as though the notice were a subpoena. Such court may, in case of contumacy or refusal to obey the order issued by the Attorney General, issue an order requiring such person to appear before the Attorney General or to produce documentary evidence, if so ordered, or to give evidence touching the matter in question, and any failure to obey such order of the court may be punished by that court as a contempt upon itself. The investigation or hearing may be made by or before any Assistant Attorney General designated in writing by the Attorney General to conduct such investigation or hearing on his behalf. Witnesses ordered to appear shall be paid the same fees and mileage as are paid witnesses in the circuit courts of this State, and witnesses whose depositions are taken and the persons taking the same shall severally be entitled to the same fees as are paid for like services in the circuit courts of this State. The Attorney General or the Assistant Attorney General acting in his behalf is empowered to administer the necessary oath or affirmation to such witnesses.

Section 11. Subject to reasonable rules and regulations adopted by the Attorney General, the register, copies of instruments and reports filed with the Attorney General shall be open to public inspection.

Section 12. The Attorney General may institute appropriate proceedings to secure compliance with this Act and to secure the proper administration of any trust or other relationship to which this Act applies. Nothing in this Act confers on the Attorney General any additional powers to administer, supervise, or direct the administration of charitable trusts.

Section 13. This Act shall apply regardless of any contrary provisions of any instrument.

Section 14. If any provision of this Act or the application thereof to any person or circumstance is held invalid, the invalidity shall not affect other provisions or applications of the Act which can be given effect without the invalid provision or application, and to this end the provisions of this Act are severable.

As amended by Act approved July 15, 1963.

ILLINOIS SOLICITATION ACT OF 1963, AS AMENDED

An Act to Regulate Solicitation and Collection of Funds for Charitable Purposes, 1963, as Amended.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 1. The following words and phrases as used in this Act shall have the following meanings unless a different meaning is required by the context.

(a) "Charitable organization." Any benevolent, philanthropic, patriotic, or eleemosynary person or one purporting to be such which solicits and collects funds for charitable purposes and includes each local, county, or area division within this State of such charitable organization, provided such local, county or area division has authority and discretion to disburse funds or property otherwise than by transfer to any parent organization.

(b) "Contribution." The promise or grant of any money or property of any kind or value, including the promise to pay, except payments by members or an organization for membership fees, dues, fines, or assessments, or for services rendered to individual members, if membership in such organization confers a bona fide right, privilege, professional standing, honor or other direct benefit, other than the right to vote, elect officers, or hold offices, and except money or property received from any governmental authority. Reference to the dollar amount of "contributions" in this Act means in the case of promises to pay, or payments for merchandise or rights of any other description, the value of the total amount promised to be paid or paid for such merchandise or rights and not merely that portion of the purchase price to be applied to a charitable purpose.

(c) "Person." Any individual, organization, group, association, partnership, corporation, trust or any combination of them.

(d) "Professional fund raiser." Any person who for compensation or other consideration plans, conducts, manages, or carries on any drive or campaign in this State for the purpose of soliciting contributions for or on behalf of any charitable organization or any other person, or who engages in the business of, or holds himself out to persons in this State as independently engaged in the business of soliciting contributions for such purposes. A bona fide officer or employee of a charitable organization shall not be deemed a professional fund raiser unless his salary or other compensation is computed on the basis of funds to be raised, or actually raised.

(e) "Professional solicitor." Any person who is employed or retained for compensation by a professional fund raiser to solicit contributions for charitable purposes from persons in this State.

(f) "Charitable purpose." Any charitable, benevolent, philanthropic, patriotic, or eleemosynary purpose.

Section 2. **(a)** Every charitable organization, except as otherwise provided in Section 3 of this Act, which solicits or intends to solicit contributions from persons in this State by any means whatsoever shall, prior to any solicitation, file with the Attorney General upon forms prescribed by him, a registration statement which shall include the following information:

1. The name of the organization and the name or names under which it intends to solicit contributions.

2. The names and addresses of the officers, directors, trustees, and chief executive officer of the organization.

3. The addresses of the organization and the addresses of any offices in this State. If the organization does not maintain a principal office, the name and address of the person having custody of its financial records.

4. Where and when the organization was legally established, the form of its organization and its tax exempt status.

5. The purpose for which the organization is organized and the purpose or purposes for which the contributions to be solicited will be used.

6. The date on which the fiscal year of the organization ends.

7. Whether the organization is authorized by any other governmental authority to solicit contributions and whether it is or has ever been enjoined by any court from soliciting contributions.

8. The names and addresses of any professional fund raisers who are acting or have agreed to act on behalf of the organization.

9. *Methods by which solicitation will be made.*

10. Copies of contracts between charitable organizations and professional fund raisers relating to financial compensation or profit to be derived by the professional fund raisers. Where any such contract is executed after filing of registration statement, a copy thereof shall be filed within 10 days of the date of execution.

11. Board, group, or individual having final discretion as to the distribution and use of contributions received.

(b) The registration statement shall be signed by the president or other authorized officer and the chief fiscal officer of the organization.

(c) Such registration shall remain in effect unless it is either cancelled as provided in this Act or withdrawn by the organization.

(d) Every registered organization shall notify the Attorney General within 10 days of any change in the information required to be furnished by such organization under paragraphs 1 through 11 of subdivision (a) of this Section.

(e) In no event shall a registration of a charitable organization continue, or be continued in effect after the date such organization should have filed, but failed to file, an annual report in accordance with the requirements of Section 4 of this Act, and such organization shall not be eligible to file a new registration until it shall have filed the required annual report with the Attorney General. If such report is subsequently filed such organization may file a new registration.

(f) Subject to reasonable rules and regulations adopted by the Attorney General, the register, registration statements, annual reports, financial statements, professional fund raisers' contracts, bonds, applications for registration and reregistration, and other documents required to be filed with the Attorney General shall be open to public inspection.

Every person subject to this Act shall maintain accurate and detailed books and records at the principal office of the organization to provide the information required herein. All such books and records shall be open to inspection at all reasonable times by the Attorney General or his duly authorized representative.

(g) Where any local, county or area division of a charitable organization is supervised and controlled by a superior or parent organization, incorporated, qualified to do business, or doing business within this State, such local county or area division shall not be required to register under this Section if the superior or parent organization files a registration statement on behalf of the local, county or area division in addition to or as part of its own registration statement. Where a registration statement has been filed by a superior or parent organization as provided in Section 2 (g) of this Act, it shall file the annual report required under Section 4 of this Act on behalf of the local, county or area division in addition to or as part of its own report, but the accounting information required under Section 4 of this Act shall be set forth separately and not in consolidated form with respect to every local, county or area division which raises or expends more than $4,000.

(h) The Attorney General may make rules of procedure and regulations necessary for the administration of this Act. Copies of all such rules of procedure and regulations and of all changes therein, duly certified by the Attorney General, shall be filed in the office of the Secretary of State.

Section 3. (a) Upon initial filing of a registration statement pursuant to Section 2 of this Act and notification by the Attorney General of his determination that the organizational purposes specified in this paragraph for exemption are actual and genuine, this Act shall not apply to a corporation sole or other religious corporation, trust or organization incorporated or established for religious purposes, nor to any agency or organization incorporated or established for charitable, hospital or educational purposes and engaged in effectuating one or more of such purposes, that is affiliated with, operated by, or supervised or controlled by a corporation sole or other religious corporation, trust or organization incorporated or established for religious purposes, nor to other religious agencies or organizations which serve religion by the preservation of religious rights and freedom from persecution or prejudice or by fostering religion, including the moral and ethical aspects of a particular religious faith.

(b) The following persons shall not be required to register with the Attorney General:

1. The University of Illinois, Southern Illinois University, Eastern Illinois University, Illinois State Normal University, Northern Illinois University, Western Illinois University, all educational institutions that are recognized by the Superintendent of Public Instruction or that are accredited by a regional accrediting association or by an organization affiliated with the National Commission on Accrediting, any foundation having an established identity with any of the aforementioned educational institutions, any other educational institution confining its solicitation of contributions to its student body, alumni, faculty and trustees, and their families, or a library established under the laws of this State, provided that the annual financial report of such institution or library shall be filed with the Superintendent of Public Instruction, Governor, Illinois State Library, County Library Board or County Board, as provided by law.

2. Fraternal, patriotic, social, educational, alumni organizations and historical societies when solicitation of contributions is confined to their membership. This exemption shall be extended to any subsidiary of a parent or superior organization exempted by Sub-paragraph 2 of Paragraph (b) of Section 3 of this Act where such solicitation is confined to the membership of the subsidiary, parent or superior organization.

3. Persons requesting any contributions for the relief or benefit of any individual, specified by name at the time of the solicitation, if the contributions collected are turned over to the named beneficiary, first deducting reasonable expenses for costs of banquets, or social gatherings, if any, provided all fund raising functions are carried on by persons who are unpaid, directly or indirectly, for such services.

4. Any charitable organization which does not intend to solicit and receive and does not actually receive contributions in excess of $4,000 during any 12 month period ending June 30th of any year, provided all of its fund raising functions are carried on by persons who are unpaid for such services. However, if the gross contributions received by such charitable organization during any 12 month period ending June 30th of any year shall be in excess of $4,000, it shall within 30 days after the date it shall have received total contributions in excess of $4,000 register with the Attorney General as provided in Section 2.

5. Any charitable organization receiving an allocation from an incorporated community chest or united fund, provided such chest or fund is complying with the provisions of this Act relating to registration and filing of annual reports with the Attorney General, and provided such organization does not actually receive, in addition to such allocation, contributions in excess of $4,000 during any 12 month period ending June 30th of any year, and provided further that all the fund raising functions of such organization are carried on

by persons who are unpaid for such services. However, if the gross contributions other than such allocation received by such charitable organization during any 12 month period ending June 30th of any year shall be in excess of $4,000, it shall within 30 days after the date it shall have received such contributions in excess of $4,000 register with the Attorney General as required by Section 2.

6. A bona fide organization of volunteer firemen, or a bona fide auxiliary or affiliate of such organization, provided all its fund raising activities are carried on by members of such an organization or an affiliate thereof and such members receive no compensation, directly or indirectly, therefor.

7. Any charitable organization operating a nursery for infants awaiting adoption providing that all its fund raising activities are carried on by members of such an organization or an affiliate thereof and such members receive no compensation, directly or indirectly therefor.

8. Any corporation established by the Federal Congress that is required by federal law to submit annual reports of its activities to Congress containing itemized accounts of all receipts and expenditures after being duly audited by the Department of Defense or other federal department.

9. Any boys' club which is affiliated with the Boys' Club of America, a corporation chartered by Congress; provided, however, that such an affiliate properly files the reports required by the Boys' Club of America and that the Boys' Club of America files with the Government of the United States the reports required by its federal charter.

Section 4. (a) Every charitable organization registered pursuant to Section 2 of this Act which shall receive in any 12 month period ending June 30th of any year contributions in excess of $10,000 and every charitable organization whose fund raising functions are not carried on solely by persons who are unpaid for such services shall file a written report with the Attorney General upon forms prescribed by him, on or before June 30 of each year if its books are kept on a calendar basis, or within 6 months after the close of its fiscal year if its books are kept on a fiscal year basis, which shall include a financial statement covering the immediately preceding 12 month period of operation. Such financial statement shall include a balance sheet and statement of income and expense, and shall be consistent with forms furnished by the Attorney General clearly setting forth the following: gross receipts and gross income from *all* sources, broken down into total receipts and income from each separate solicitation project or source; cost of administration; cost of solicitation; cost of programs designed to inform or educate the public; funds or properties transferred out of this State, with explanation as to recipient and purpose; total net amount disbursed or dedicated for each major purpose, charitable or otherwise. Such report shall also include a statement of any changes in the information required to be contained in the registration form filed on behalf of such organization. The report shall be signed by the president or other authorized officer and the chief fiscal officer of the organization, and shall be accompanied by an opinion signed by an independent certified public accountant that the financial statement therein fairly represents the financial operations of the organization in sufficient detail to permit public evaluation of its operations.

(b) Every organization registered pursuant to Section 2 of this Act which shall receive in any 12 month period ending June 30th of any year contributions not in excess of $10,000 and all of whose fund raising functions are carried on by persons who are unpaid for such services shall file a written report with the Attorney General upon forms prescribed by him, on or before June 30 of each year if its books are kept on a calendar basis, or within 6 months after the close of its fiscal year if its books are kept on a fiscal year basis, which shall include a financial statement covering the immediately preceding 12-month period of operation limited to a statement of such organization's gross receipts from contributions, fund raising expenses including a separate statement of the cost of any goods, services or admissions supplied as part of its solicitations, and the disposition of the net proceeds from contributions. Such report shall also include a statement of any changes in the information required to be contained in the registration form filed on behalf of such organization. The report shall be signed by the president or other authorized officer and the chief fiscal officer of the organization who shall certify that the statements therein are true and correct to the best of their knowledge.

(c) For any fiscal or calendar year of any organization registered pursuant to Section 2 of this Act in which such organization would have been exempt from registration pursuant to Section 3 of this Act if it had not been so registered, or in which it did not solicit or receive contributions, such organization shall file, on or before June 30 of each year if its books are kept on a calendar basis, or within 6 months after the close of its fiscal year if its books are kept on a fiscal year basis, instead of the reports required by subdivisions (a) or (b) of this Section, a report in the form of an affidavit of its president and chief fiscal officer stating the exemption and the facts upon which it is based or that such organization did not solicit or receive contributions in such fiscal year. The affidavit shall also include a statement of any changes in the information required to be contained in the registration form filed on behalf of such organization.

(d) The Attorney General shall cancel the registration of any organization which fails to comply with subdivision (a), (b) or (c) of this Section within the time therein prescribed, or fails to furnish such additional information as is requested by the Attorney General within the required time; except that the time may be extended by the Attorney General for a period not to exceed 3 months. Notice of such cancellation shall be mailed to the registrant at least 15 days before the effective date thereof.

Section 5. Any charitable organization, person, professional fund raiser or professional solicitor, which or who solicits contributions in this State but does not maintain an office within the State shall be subject to service of process, as follows:

(a) By service thereof on its registered agent within the State or if there be no such registered agent, then upon the person who has been designated in the registration statement as having custody of books and records within this State; where service is effected upon the person so designated in the registration statement a copy of the process shall, in addition, be mailed to the charitable organization at its last known address:

(b) When a charitable organization has solicited contributions in this State, but maintains no office within the State, has no registered agent within the State, and no designated person having custody of its books and records within the State, or when a registered agent or person having custody of its books and records within the State cannot be found as shown by the return of the sheriff of the county in which such registered agent or person having custody of its books and records has been represented by the charitable organization as maintaining an office, service may be made by delivering to and leaving with the Secretary of State, or with any deputy or clerk in the corporation department of his office, three copies thereof and a fee of $6:

(c) Following service upon the Secretary of State the provisions of law relating to service of process on foreign corporations contained in "The Business Corporation Act," filed July 13, 1933, as heretofore and hereafter amended, shall thereafter govern:

(d) The solicitation of any contribution within this State shall be deemed to be the agreement of the charitable organization that any process against it which is so served in accordance with the provisions of this Section shall be of the same legal force and effect as if served personally within this State.

Section 6. (a) No person shall act as a professional fund raiser for a charitable organization required to register pursuant to Section 2 of this Act, or for any religious organization as described in Section 3(a) of this Act before he has registered with the Attorney General or after the expiration or cancellation of such registration or any renewal thereof. Applications for registration and reregistration shall be in writing, under oath, in the form prescribed by the Attorney General. The applicant shall at the time of making application, file with, and have approved by, the Attorney General a bond in which the applicant shall be the principal obligor, in the sum of $5,000, with one or more corporate sureties licensed to do business in this State whose liability in the aggregate will at least equal such sum. The bond shall run to the Attorney General for the use of the State and to any person who may have a cause of action against the obligor of the bond for any malfeasance or misfeasance in the conduct of such solicitation; provided, that the aggregate limit of liability of the surety to the State and to all such persons shall, in no event, exceed the sum of such bond. Registration or reregistration when effected shall be for a period of one year, or a part thereof, expiring on the 30th day of June, and may be renewed upon written application, under oath, in the form prescribed by the Attorney General and the filing of the bond for additional one year periods. Every professional fund raiser required to register pursuant to this Act shall file an annual written report with the Attorney General containing such information as he may require by rule.

(b) Any person who violates the provisions of this Section is guilty of a misdemeanor, and shall be fined not to exceed $1,000 or imprisoned in a penal institution other than the penitentiary not to exceed one year, or both fined and imprisoned.

Section 7. All contracts entered into between professional fund raisers and charitable organizations shall be in writing and a true and correct copy of each such contract shall be filed by the professional fund raiser who is party thereto with the Attorney General within 10 days after it is made. True and correct copies of such contracts shall be kept on file in the offices of the charitable organization and the professional fund raiser during the term thereof and until the expiration of a period of 3 years subsequent to the date the solicitation of contributions provided for therein actually terminates. Any person who violates the provisions of this Section is guilty of a misdemeanor, and shall be fined not to exceed $1,000 or imprisoned in a penal institution other than the penitentiary not to exceed one year, or both fined and imprisoned.

Section 8. (a) No person shall act as a professional solicitor in the employ of a professional fund raiser required to register pursuant to Section 6 of this Act before he has registered with the Attorney General or after the expiration or cancellation of such registration or any renewal thereof. Application for registration or reregistration shall be in writing, under oath, in the form prescribed by the Attorney General. Such registration or reregistration when effected shall be for a period of one year, or a part thereof, expiring on the 30th day of June, and may be renewed upon written application, under oath, in the form prescribed by the Attorney General for additional one year periods.

(b) Any person who violates the provisions of this Section is guilty of a misdemeanor and shall be fined not to exceed $1,000 or imprisoned in a penal institution other than the penitentiary not to exceed one year, or both fined and imprisoned.

Section 9. (a) An action for violation of this Act may be prosecuted by the Attorney General in the name of the people of the State, and in any such action the Attorney General shall exercise all the powers and perform all duties which the State's Attorney would otherwise be authorized to exercise or to perform therein.

(b) This Act shall not be construed to limit or restrict the exercise of the powers or the performance of the duties of the Attorney General which he otherwise is authorized to exercise or perform under any other provision of law by statute or otherwise.

(c) Whenever the Attorney General shall have reason to believe that any charitable organization, professional fund raiser, or professional solicitor is operating in violation of the provisions of this Act, or if any of the principal officers of any charitable organization has refused or failed, after notice, to produce any records of such organization or there is employed or is about to be employed in any solicitation or collection of contributions for a charitable organization any device, scheme, or artifice to defraud or for obtaining money or property by means of any false pretense, representation or promise, or any false statement has been made in any application, registration or statement required to be filed pursuant to this Act, or the solicitation of funds includes the sending of goods, wares and merchandise not ordered or requested by the recipient and where more than 25% of the total funds so raised are paid over to the manufacturer, supplier or agent thereof of the goods, wares and merchandise, or where less than 75% of the gross receipts, excluding any bequests or gifts by will or other testamentary device, of such charitable organization as defined in Section 1 are used for charitable purposes. Gross receipts shall mean receipts after the legitimate and reasonable cost of any merchandise for resale or the legitimate and reasonable cost of services required with the fund raising event or program are deducted; in addition to any other action authorized by law, he may bring in the circuit court an action in the name, and on behalf of the people of the State of Illinois against such charitable organization and any other person who has participated or is about to participate in such solicitation or collection by employing such device, scheme, artifice, false representation or promise, to enjoin such charitable organization or other person from continuing such solicitation or collection or engaging therein or doing any acts in furtherance thereof, or to cancel any registration statement previously filed with the Attorney General.

In connection with such proposed action the Attorney General is authorized to take proof in the manner provided in Section 58 of the Civil Practice Act.

(d) Upon a showing by the Attorney General in an application for an injunction that any person engaged in the solicitation or collection of funds for charitable purposes, either as an individual or as a member of a copartnership, or as an officer of a corporation or as an agent for some other person, or copartnership or corporation, has been convicted in this State or elsewhere of a felony or of a misdemeanor where such felony or misdemeanor involved the misappropriation, misapplication or misuse of the money or property of another, he may enjoin such persons from engaging in any solicitation or collection of funds for charitable purposes.

(e) The Attorney General may exercise the authority granted in this Section against any charitable organization or person which or who operates under the guise or pretense of being an organization exempted by the provisions of Section 3 and is not in fact an organization entitled to such an exemption.

(f) In any action brought under the provisions of this Act, the Attorney General is entitled to recover costs for the use of this State.

Section 10. When the Attorney General requires the attendance of any persons as provided in Section 9 he shall issue an order setting forth the time when and the place where attendance is required and shall cause the same to be served upon the person in the manner provided for service of process in civil cases at least 14 days before the date fixed for attendance. Such order shall have the same force and effect as a subpoena and, upon application of the Attorney General obedience to the order may be enforced by any court having jurisdiction in the county where the person receiving it resides or is found, in the same manner as though the notice were a subpoena. Such court may, in case of contumacy or refusal to obey the order issued by the Attorney General, issue an order requiring such person to appear before the Attorney General or to produce documentary evidence, if so ordered, or to give evidence touching the matter in question, and any failure to obey such order of the court may be punished by that court as a contempt upon itself. The investigation or hearing may be made by or before any Assistant Attorney General designated in writing by the Attorney General to conduct such investigation or hearing on his behalf. Witnesses ordered to appear shall be paid the same fees and mileage as are paid witnesses in the circuit courts of this State, and witnesses whose depositions are taken and the persons taking the same shall severally be entitled to the same fees as are paid for like services in the circuit courts of this State. The Attorney General or the Assistant Attorney General acting in his behalf is empowered to administer the necessary oath or affirmation to such witnesses.

Section 11. (a) No person shall for the purpose of soliciting contributions from persons in this State, use the name of any other person, except that of an officer, director or trustee of the charitable organization by or for which contributions are solicited, without the written consent of such other persons.

(b) A person shall be deemed to have used the name of another person for the purpose of soliciting contributions if such latter person's name is listed on any stationery, advertisement, brochure or correspondence in or by which a contribution is solicited by or on behalf of a charitable organization or his name is listed or referred to in connection with a request for a contribution as one who has contributed to, sponsored or endorsed the charitable organization or its activities.

(c) Nothing contained in this Section shall prevent the publication of names of contributors without their written consents, in an annual or other periodic report issued by a charitable organization for the purpose of reporting on its operations and affairs to its membership or for the purpose of reporting contributions to contributors.

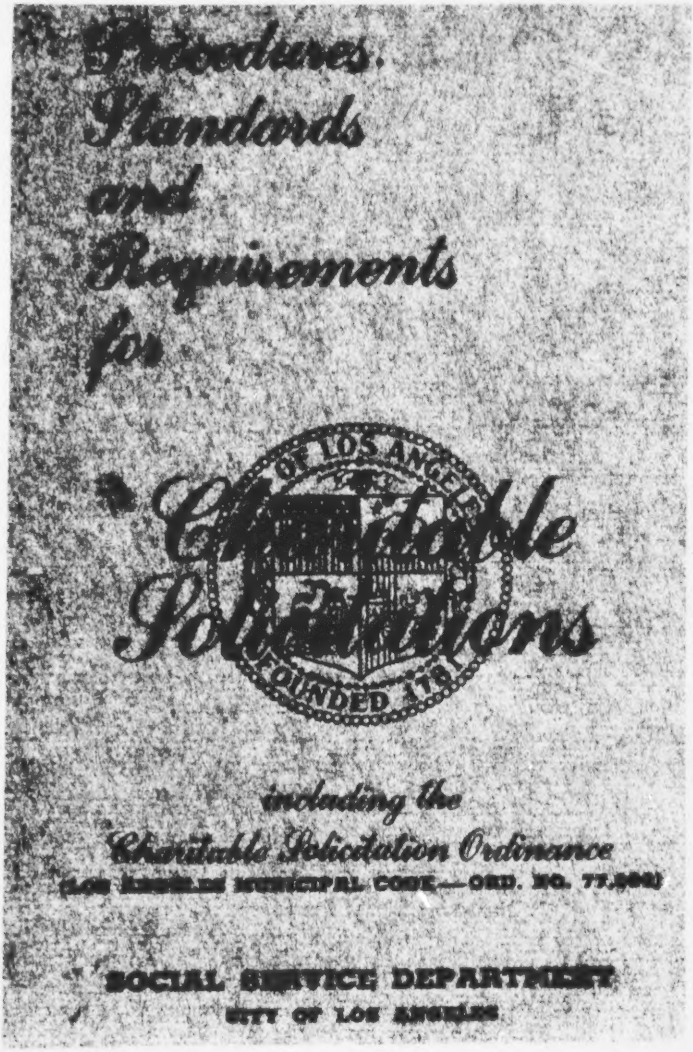
(d) No charitable organization or professional fund raiser soliciting contributions shall use a name, symbol, or statement so closely related or similar to that used by another charitable organization or governmental agency that the use thereof would tend to confuse or mislead the public.

(e) Any person who willfully violates the provisions of this Section is guilty of a misdemeanor and shall be fined not to exceed $1,000 or imprisoned in a penal institution other than the penitentiary not to exceed one year, or both fined and imprisoned.

Section 12. Registration under this Act shall not be deemed to constitute an endorsement by the State of Illinois of the charitable organization, professional fund raiser, or professional solicitor so registered. It shall be unlawful for any charitable organization, professional fund raiser, or professional solicitor to represent, directly or indirectly, for the purpose of solicitation and collection of funds for charitable purposes, in any form or manner whatsoever by advertising or otherwise, that it has registered or otherwise complied with the provisions of this Act. The Attorney General shall cancel the registration of any organization, professional fund raiser, or professional solicitor which or who violates the provisions of this Section.

Section 13. The Attorney General may enter into reciprocal agreements with a like authority of any other State or States for the purpose of exchanging information made available to the Attorney General or to such other like authority.

Section 14. If any provision of this Act, or the application of such provision to any persons, body or circumstances shall be held invalid, the remainder of this Act, or the application of such provision to persons, bodies or circumstances other than those as to which it shall have been held invalid, shall not be affected thereby.



Procedures, Standards and Requirements for Charitable Solicitations

including the
Charitable Solicitation Ordinance
(LOS ANGELES MUNICIPAL CODE—ORD. NO. 77,[illegible])

SOCIAL SERVICE DEPARTMENT
CITY OF LOS ANGELES

CITY OF LOS ANGELES

TOM BRADLEY, MAYOR

SOCIAL SERVICE DEPARTMENT

FERN JELLISON, GENERAL MANAGER

Room 1501, City Hall
Los Angeles, California, 90012
Telephone 485-5003

SOCIAL SERVICE COMMISSIONERS

WILLIS EDWARDS
JUDY CAROLE KUHN
RABBI ALBERT LEWIS
LOIS MC KINSTRY
KATE STERN

BEST COPY AVAILABLE

Procedures

in conducting all charitable appeals

Before: *At least* ten days prior to the inauguration of a solicitation campaign or the solicitation for a dance, show, entertainment, sale, concert, lecture or other special event to obtain funds for charitable uses, it is necessary to file with the City Social Service Department a NOTICE OF INTENTION TO SOLICIT, to be *signed by two officers of the soliciting organization.* Full information must be submitted by which the Department may evaluate the services to be performed and ascertain the necessity for the proposed appeal. The information shall include copies of Articles of Incorporation or Constitution, Bylaws, roster of officers, auditor's financial statement and description of charitable services provided.

After thorough investigation of the organizational structure and past performance, an INFORMATION CARD is issued containing the important facts to be considered by a prospective donor in determining the desirability of making a contribution. *No solicitation shall be started until an INFORMATION CARD has been issued by the Social Service Department.*

During: Each solicitor must carry a reproduction of the INFORMATION CARD and exhibit it to all persons solicited, allowing the donor time to read its contents. In mail appeals, a facsimile of the INFORMATION CARD must be enclosed with each appeal.

After: A REPORT OF RESULTS showing receipts and expenditures and distribution of net proceeds must be filed *within thirty days* of the termination of the fund-raising campaign or the conduct of the special event.

Promoters and Paid Solicitors

All persons, not regularly salaried employees of a social service agency endorsed by the Social Service Department, receiving pecuniary compensation to raise funds for a charitable agency, are required to obtain a PROMOTER'S LICENSE for a fee of $55, and furnish a $5,000 bond pursuant to Section 44.18 of the Los Angeles Municipal Code.

PAID SOLICITORS must register and furnish a $1,000 bond with a $5 filing fee.

Standards

of the Social Service Department must be observed by all organizations raising funds for charitable purposes

1. ***Direct Appeals—***
   Fund-raising cost for all direct appeals *shall not exceed 20 percent* of total receipts.
2. ***Special Events—***
   Fund-raising expenses for any special event such as a dance, concert, entertainment, dinner, lecture or other activity *shall not exceed 50 percent* of total receipts.
3. ***Door-to-Door Solicitations—***
   There shall be no door-to-door solicitation, or selling, or offering to sell, goods, wares, or merchandise, or any other thing of value, in order to raise funds for any charitable purpose between the hours of *9 p.m.* and *9 a.m.*
4. ***Coin Containers—***
   Boxes or receptacles *not* to be placed in any public building or business establishment for the collection of funds to be used for a charitable purpose. (The term "boxes or receptacles" includes, but is not limited to, coin cards, cans, jars, bottles, or any other thing or device, whether sealed or open, used for collecting, receiving or holding coins or currency of any denomination.)
5. ***Children—***
   Children are *not* to solicit nor offer for sale any merchandise, subscriptions, tickets or other device with the representation that proceeds are to be used for a charitable purpose unless accompanied by responsible adults holding an INFORMATION CARD issued by the Social Service Department. *No solicitation* to be conducted between the hours of sunset and 9 a.m.
6. ***Unordered Merchandise—***
   Unordered merchandise *not* to be mailed or sent with an appeal that its purchase or a donation in connection therewith will benefit a charity.
7. ***Tag Days or Street Sales—***
   Solicitation of funds *not* to be conducted by the tag day or street sale method.
8. ***Local Fund Raising Requirements—***
   - ***A.*** A local organization must be established with a minimum eleven member board.
   - ***B.*** Bylaws be adopted spelling out its name, purpose, procedures for management, election of officers and duties.
   - ***C.*** All local fund raising be conducted under the responsibility and direction of the local organization.
   - ***D.*** All solicitation receipts be deposited in a bank account set up in the name of the local organization.
   - ***E.*** The local organization must conduct regular meetings to assure the stipulated level of local control.

These Standards govern the conduct of all charity fund raising

BEST COPY AVAILABLE

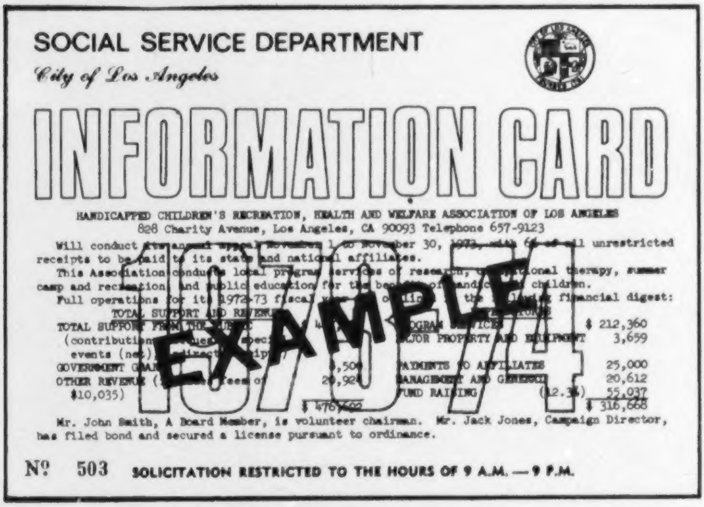
Requirements

for Reproduction of Information Card

The INFORMATION CARD is issued following the filing of a NOTICE OF INTENTION by your organization to conduct a solicitation for a charitable purpose. It is required by law to be carried by each solicitor and to be exhibited to all persons solicited.

Your attention is directed to the ordinance provision that the INFORMATION CARD must be included in *all* brochures, invitations, letters of appeal, follow-up requests and other published matter. Publicity by radio, television and/or other methods requires exhibition of the INFORMATION CARD where applicable.

Reproduction of the Information Card must be clearly legible in type not smaller than the offset print example shown below and not less than 3½" x 5" in dimension.



SOCIAL SERVICE DEPARTMENT

City of Los Angeles

INFORMATION CARD

HANDICAPPED CHILDREN'S RECREATION, HEALTH AND WELFARE ASSOCIATION OF LOS ANGELES
828 Charity Avenue, Los Angeles, CA 90093 Telephone 657-9123

Will conduct [illegible] November 1 to November 30, [illegible] unrestricted receipts to be paid to its state and national affiliates.

This Association conducts local program services of research, [illegible] therapy, summer camp and recreation, and public education for the [illegible] children.

Full operations for its 1972-73 fiscal [illegible] the [illegible] financial digest:

TOTAL SUPPORT AND REVENUE		[illegible]	
TOTAL SUPPORT FROM THE [illegible] (contributions, [illegible] special events (net), [illegible]	4[illegible]	PROGRAM SERVICES	$ 212,360
		[illegible]AJOR PROPERTY AND EQUIPMENT	3,659
GOVERNMENT [illegible]	[illegible],500	PAYMENTS TO AFFILIATES	25,000
OTHER REVENUE ([illegible] fees of $10,035)	2[illegible],92[illegible]	MANAGEMENT AND GENERAL	20,612
		FUND RAISING (12.3[illegible])	55,037
	$ 476,[illegible]		$ 316,668

Mr. John Smith, A Board Member, is volunteer chairman. Mr. Jack Jones, Campaign Director, has filed bond and secured a license pursuant to ordinance.

Nº 503 SOLICITATION RESTRICTED TO THE HOURS OF 9 A.M. — 9 P.M.

Be sure that your volunteer solicitors are properly instructed concerning the use of the Information Card and the provisions of the Social Service Department ordinance. (Ordinance No. 77,000, Chapter 4, Article 4 of the Los Angeles Municipal Code.)

The Charitable Solicitation Ordinance

LOS ANGELES MUNICIPAL CODE
ORDINANCE NUMBER 77,000

As Amended to and including Ordinance Number 137,137

CHAPTER 4

ARTICLE 4 — CHARITIES AND RELIEF

SEC. 44.01. DEFINITIONS:

For the purposes of this Article, the following words are defined and shall be construed as hereafter set forth unless it shall be apparent from the context that they have a different meaning:

"Board" shall mean the Board of Social Servcie Commissioners;

"Charitable" shall include the words philanthropic, social service, benevolent, patriotic, either actual or purported;

"Contribution" shall include the words alms, food, clothing, money, property or donations under the guise of a loan of money or property;

"Department" shall mean the Department of Social Service;

"Person" [Added by Ordinance No. 80,920, approved March 1, 1939.] shall be construed as defined in Section 11.01 of this Code.

As Amended By Ord. #134,583

"Promoter" shall mean any person who for pecuniary compensation or consideration received, or to be received, solicits or is engaged in the business of or holds himself out to the public as engaged in the business of soliciting contributions for or on behalf of any other person or any charitable association, corporation or institution, or conducts, manages or carries on or agrees to conduct, manage or carry on or is engaged in the business of or holds himself out as engaged in the business of conducting, managing or carrying on any drive or campaign for any such purpose; provided, however, that pecuniary compensation or consideration as used herein, shall include, but shall not be limited to, participation on a percentage basis in any fund solicited, or raised, for or on behalf of any other person, firm, association or corporation; provided, further, that no person who is a bona fide paid officer or employee of a social service agency endorsed by the Department of Social Service, shall be considered a promoter within the meaning of this Article.

"Solicitation" shall mean and include the following:

(1) Any oral or written request;

(2) The distribution, circulation, mailing, posting or publishing of any handbill;

(3) [As amended by Ordinance No. 98,135]

The making of any announcement to the press, over the radio or television, by telephone or telegraph concerning an appeal, assemblage, athletic or sports event, bazaar, benefit, campaign, contest, dance, drive, entertainment, exhibition, exposition, party, performance, picnic, sale or social gathering, which the public is requested to patronize or to which the public is requested to make a contribution for any charitable purpose connected therewith;

(4) The sale of, offer or attempt to sell, any advertisement, advertising space, book, card, chance, coupon, device, magazine, membership, merchandise, subscription, ticket or other thing in connection with which any appeal is made for any charitable purpose or the name of any charity, philanthropy or charitable association is used or referred in any such appeal as an inducement or reason for making any such sale, or when or where in connection with any such sale, any statement is made that the whole or any part of the proceeds from any such sale will go or be donated to any charitable purpose or association.

A solicitation as defined herein shall be deemed completed when made, whether or not the person making the same receives any contribution or makes any sale referred to in this Article.

As Amended By Ord. #134,583

SEC. 44.02. POWERS OF BOARD:

The Board shall have the following powers:

(a) To publish results of any investigation provided for or authorized in Section 44.03, subdivisions (a), (b) and (c) of this Article;

(b) To give such publicity to any such results by such means as may be deemed best to reach the general public and persons interested, except in the case of publicizing investigations of [illegible], deceptions and frauds.

SEC. 44.03. POWERS OF DEPARTMENT:

The Department shall have the following powers:

(a) To investigate the allegations of Notice of Intention, or any statement or reports;

(b) To have access to and inspect and make copies of all books, records and papers of such person, by or on whose behalf any solicitation is made;

(c) To investigate at any time the methods of making or conducting any such solicitation;

(d) To issue to all solicitors Information Cards which cards shall show:

(1) That same is issued as information for the public and is not an endorsement;

As Amended By Ord. #134,583

(2) The Department may pursuant to Section 44.20 of this Article, omit above provision and state that it endorses such charitable association;

(3) The pertinent facts set forth in Notice of Intention required under Section 44.05 of this Article;

As Amended By Ord. #134,583

(4) Any additional information obtained as shall in the opinion of the Department be of assistance to the public to determine the nature and worthiness of the purpose for which the solicitation is made;

(e) To charge a fee for supplying Information Cards, at the rate of four cents per card; provided that when more than twenty-five cards are issued at one time for the same solicitation, the fee for all such cards in excess of twenty-five shall be one cent per card.

As Added By Ord. #134,583

(f) To waive the whole or part of any provisions of Sections 44.03, 44.05, 44.09, 44.10, 44.11, 44.12, 44.13 and 44.15 excepting this subsection, for the purpose of meeting any extraordinary emergency or calamity;

(g) To request the return of Information Cards to the Department upon completion of solicitation for which they are issued or at the expiration of the period for which they are valid;

(h) Upon receipt of additional information which, in the opinion of the Department, shall render incorrect any statement set forth in any such Information Card, the Department shall recall every such Information Card and amend or correct the same or issue in lieu thereof a new Information Card amended or corrected in accordance with such additional information, and that upon receipt of notification to return any Information Card for amendment or correction or new issue, as above provided, the association or person who filed the Notice of Intention for the solicitation for which any such card was issued must present such recalled Information Card to the Department within 48 hours from the time of receipt of said notification;

(i) To waive all conditions of this Article upon application of person filing Notice of Intention, in respect to Information Cards and filing copies of written authorization when a campaign or drive for raising funds for any charitable purpose is given general publicity through the press or otherwise, and when more than twenty-five (25) persons serve as solicitors without compensation, if it shall be proved to the satisfaction of the Department that the publicity concerning the solicitation fully informs the general public and the persons to be solicited as to the facts required to be set forth on the Information Card.

(j) To enforce the policy of the City of Los Angeles, acting through the Department of Social Service, to encourage, through public education, publicity, and such other means of informing the public as the Department shall deem desirable and effective, support by the donating public in this City of those organizations conducting charitable solicitations within its limits which are so organized that at least one-half of the net proceeds collected within the City is expended as authorized by and under the direction of a Los Angeles area governing Board or committee which exists for the purpose of administering, supervising, or otherwise carrying on the solicitation and service activities of that organization in the area.

(k) *To maintain a constant survey of the field of charities* with regard to the need and the work being done in connection therewith; to avoid unreasonable, unnecessary or wasteful duplication of services; and to secure intelligent cooperation among all charities in the City to the end that a comprehensive and economical plan in philanthropy may be attained.

SEC. 44.04. FRAUD—SOLICITATION:

No person shall make or perpetrate any misstatement, deception or fraud in connection with any solicitation of any contribution for any charitable purpose.

SEC. 44.05. CHARITY SOLICITATION— NOTICE OF INTENTION:

No person shall solicit, nor shall any officer or member of any association authorize any person to solicit, any contribution for any charitable purpose unless, within the fiscal year of the City in which such solicitation is made and at least ten (10) days prior to the beginning of such solicitation, there shall have been filed with the Department, on a form furnished by said Department, by such person or association upon whose behalf the solicitation is made, written Notice of Intention to solicit such contribution, which notice shall contain complete information as follows:

(a) The purpose of the solicitation and use of the contribution to be solicited;

(b) A specific statement, supported by reasons and, if available, figures, showing the need for the contribution proposed to be solicited;

(c) The character of such solicitation and how it will be made or conducted;

(d) The expenses of the solicitation, including salaries and other items, if any, regardless or from what funds such expenses are payable;

(e) What portion of the contributions collected as a result of the solicitation will remain available for application to the specific purposes declared in the Notice of Intention as the object of the solicitation;

(f) A specific statement of all contributions collected or received by such person or association within the calendar year immediately preceding the filing of such Notice of Intention. The expenditures or use made of such contributions, together with the names and addresses of all persons or associations receiving salaries, wages, compensation, commissions or emoluments from such contributions, and the respective amounts thereof;

(g) The names and addresses of the officers and directors of any such association for which the solicitation is proposed to be made;

(h) A copy of the resolution, if any, of any such association authorizing such solicitation, certified to as a true and correct copy of the original of such resolution by the officer of such association having charge of the records thereof;

(i) A statement that the signers of such Notice have read and are familiar with the provisions of this Article and will require all solicitors engaged in such solicitation to read and be familiar with all sections of this Article prior to making any such solicitation.

BEST COPY AVAILABLE

As Amended By Ord. #134,583

SEC. 44.06. CHARITY—SOLICITOR'S AGREEMENT—NOTICE OF INTENTION—ADDITIONAL INFORMATION:

There shall be filed with the Department with such Notice of Intention a statement of any agreement made with any agent, solicitor, promoter, manager or conductor of such solicitation, together with a copy of each agreement which may be in writing. Within twenty-four hours after any change in any such agreement or the making of any new or further agreement, a true copy of such change or agreement, if in writing, or if not, written details thereof shall be filed with the Department. Whenever, in the opinion of the Department, the Notice of Intention filed with the Department does not disclose sufficient information for the public concerning the facts hereinabove required to be stated in such Notice or concerning the person or association making such solicitation or on whose behalf such solicitation is made, then, upon the request of said Department, there shall be filed, in writing, within forty-eight (48) hours after such request, such additional information as may be required by said Department upon the foregoing subjects. Provided, however, that the Department, for good cause, may extend the time for filing such additional information. The Notice of Intention and such additional information, if requested, shall be signed by such person intending to make such solicitation, or if by or on any association, by at least two officers of such association and shall be open to the inspection of the public.

SEC. 44.07. NAME OF SOLICITOR:

No person shall use in soliciting or give to any person whomsoever, either a fictitious name or an alias or any other than his full, true and correct name, or make any such solicitation without at the time of giving to the person solicited his own full, true and correct name, nor shall he impersonate any other person in making such solicitation.

SEC. 44.08. CHARITABLE ASSOCIATIONS—ACCOUNTING SYSTEM—MAINTENANCE OF:

No person shall solicit any contributions for or on behalf of any charitable association unless such association is maintaining a system of accounting whereby all donations to it and all disbursements made by it are entered upon the books or records of its treasurer or other financial officer.

SEC. 44.09. [As amended by Ordinance No. 84,121, approved Feb. 5, 1941.] SOLICITATION—BOXES—RECEPTACLES

As Amended By Ord. #134,583

(a) No person shall solicit any contribution for any purpose by means of any box or receptacle, upon any public street, sidewalk or way, or in any public park or in publicly owned or controlled place, except by the express written permission of the Deparment.

(b) No person shall solicit any charitable contribution, or any contribution for any real or purported charitable purpose, by means of any box or receptacle in any place immediately abutting upon any public sidewalk or way, or in any place of business open to the public, or in any room, hallway, corridor, lobby or entranceway, or other place open to or accessible to the public, or in any place of public resort, without first filing wtih the Department a "Notice of Intention" as required by Sec. 44.05, and every person so soliciting must in all other respects comply with the provisions of this Article.

SEC. 44.10. CHARITABLE ASSOCIATIONS—PERMISSION BY TO SOLICIT:

No person shall use the name of any association in charge of control of any charitable activity in any solicitation without having written permission from two of the officers of such association, to use its name or the name of or reference to such charitable activity, which written permission must be for a specific event or a specified period of time and a copy of such permission must be filed with the Department prior to any such use.

SEC. 44.11. CHARITABLE ASSOCIATIONS—SOLICITOR—AUTHORIZATION, EXHIBITION OF;

No person shall solicit in the name of or on behalf of any charitable association unless such solicitor has:

(a) Written authorization of two officers of such association, a copy of which shall be filed with the Department; and which authorization and copy shall each bear a specimen signature of the solicitor; such written authorization shall expressly state on its face the period for which it is valid which shall not exceed ninety days from the date issued.

(b) Such authorization with him when making solicitations and exhibits the same on request to persons solicited or police officers or agents of the Department.

SEC. 4412. SOLICITATION—INFORMATION CARD;

No person shall solicit any contributions unless he exhibits an Information Card provided for in Sec. 44.06 of this Article and reads it to the person solicited or permits it to said person for his perusal, allowing him sufficient opportunity to read same, before accepting any contribution so solicited.

SEC. 44.13. (As amended by Ordinance No. 88,136)
SOLICITATION—RADIO, TELEVISION, TELEPHONE, TELEGRAPH;

No person shall solicit any contributions by printed matter or published article, or over the radio, television, telephone or telegraph, unless such publicity shall contain the data and information required to be set forth on the information card; provided, that when any solicitation is made by telephone, the solicitor shall present to each person who consents, or indicates a willingness to contribute, prior to accepting a contribution from said person, such information card or a true written copy thereof.

SEC. 44.14. SOLICITATIONS—REPORT—TIME—EXPENSES—USES;

Every person soliciting any contribution for any charitable purpose must file with the Department within 30 days after the close of any such solicitation or within 30 days after a demand therefor by the Department a report to the Department, stating the contributions secured from or as a result of any such solicitation, and in detail all expenses of or connected with such solicitation, and showing exactly for what uses and in what manner all such contributions were or are to be disbursed or distributed. Every such report shall be made on forms to be furnished by the Department, and signed by the persons or association filing or obligated to file the Notice of Intention and such report, if made by any such association, shall be signed by at least two officers thereof. Provided, that when any such solicitation is made by any such association such report need be filed only by such association and not by an individual solicitor engaged in any such solicitation.

SEC. 44.15. CONTRIBUTIONS—RECEIPT, CONTENTS OF;

No person shall solicit any contribution for any charitable purpose unless such person shall tender to each person making such contribution a written receipt signed by the solicitor which contains in addition to a description of the amount and kind of the contribution, substantially the following matters:

(a) The name of the association, if any, in whose name or upon whose behalf the solicitation is made.

(b) A statement as to whether the contribution solicited is to be applied for the general purposes of such association, if any, or for specific purposes, and if for specific purposes the nature thereof shall be clearly stated.

(c) A statement that the Information Card, issued by the Department, was presented to the person making the contribution for his perusal prior to receipt by the solicitor of the contribution receipted for.

As Amended By Ord. #134,583

Provided, however, that no receipt need be given or tendered if donation of money is made by placing of the same in a locked receptacle, of a kind previously approved by the Department in such manner that it is impracticable to ascertain either the amount donated or the name of the donor, and if an inscription shall be conspicuously attached to such receptacle containing in legible writing a copy of such Information Card issued by the Department and the statement required to be set forth in the receipt hereinbefore in this Section referred to, except the statements regarding such Information Card, and if such receptacle bears a number or other mark of identification, and if a written list showing by number the location or name of the solicitor in charge of each receptacle, if there be more than one such receptacle shall have been previously filed with the Department. Provided, however, that no receipt need be given for any donation of money in an amount less than $1.00.

SEC. 44.16. CERTAIN PROVISIONS NOT APPLICABLE, WHEN:

As Amended By Ord. #134,583

The provisions of this Article, except Sections 44.01 and 44.04, shall not be applicable to any solicitation made upon premises owned or occupied by the association upon whose behalf such solicitation is made, nor to any solicitation for the relief of any individual specified by name at the time of the solicitation where the solicitor represents in each case that the entire amount collected, without any deduction whatever, shall be turned over to the named beneficiary, nor shall they be applicable to any association soliciting contributions solely from persons who are members thereof at the time of such solicitation, nor shall they be applicable to solicitations made solely for evangelical, missionary or religious purposes. Provided, however, that in any case where it shall come to the attention of the Department that any solicitation has been or is being or intended to be made for evangelical, missionary or religious purposes but in such manner as in the opinion of the Department is calculated to give or may give the impression to the person or persons solicited in any such solicitation or to the public that the purpose of such solicitation is either in whole or in part charitable, then the Department, if in its opinion the public interest will be subserved thereby, shall investigate the matter of such solicitation and give publicity to its findings thereon in such manner as it may deem best to advise the public of the facts of the case.

SEC. 44.17. SOLICITING FROM VEHICLES:

No person shall park or stand any vehicle on any street within the Central Traffic District, as said district is defined in Section 80.00, for the purpose of soliciting funds to any charitable institution, or otherwise.

SEC. 44.18. [Added by Ordinance No. 80,920, approved March 1, 1939.]
TELEPHONE SOLICITATIONS:

(a) No person shall for pecuniary compensation or consideration conduct or make any solicitation by telephone for or on behalf of any actual or purported charitable use, purpose, association, corporation or institution.

(b) The provisions of Subsection (a) hereof shall not apply to any communication by telephone between persons personally known to each other.

As Amended By Ord. #134,583

SEC. 44.19. PROMOTERS:

(1) Promoters.

No promoter shall in any manner whatsoever, solicit within the City of Los Angeles any contribution for any actual or purported charitable use, purpose, association, corporation or institution without a license from the Department so to do.

(2) Application.

To obtain such license, such promoter shall make and file with the Department an application therefor in writing. In such application, the applicant shall set forth, in addition to such information as may be required by the Department:

(a) The name and address of the applicant and if such applicant be a corporation, the name and address of each of its managing officers and agents, and, if it be an unincorporated association, firm or partnership, the name and address of each member of such unincorporated association, firm or partnership.

(b) A succinct statement of facts showing that the applicant, if not a corporation or an unincorporated firm, association or partnership, is of good character and reputation, or if the applicant be a corporation that each of its managing officers and agents is of good character and reputation, or if the applicant be an unincorporated association, firm or partnership, that each of its members is of good character and reputation.

(c) The general plan, character and method in or by which applicant proposes to conduct its or his business as a promoter.

(3) Bond.

As Amended by Ordinance No. 136,711

(a) At the time of so filing with the Department an application for such license the applicant shall file and thereafter maintain with the Department a good and sufficient bond in the aggegate sum of Five Thousand Dollars ($5,000) running to the City of Los Angeles for the use and benefit of interested persons and parties, executed by the applicant and by two or more responsible sureties, or a surety company authorized to do business in the State of California, to be approved by the Department. The total aggregate liability on said bond shall be limited to the payment of Five Thousand Dollars ($5,000). Said bond shall be conditioned upon the strict compliance, by the Principal, with the provisions of this Article, and the payment of any direct pecuniary loss sustained, through any act of grand or petty theft on the part of the Principal, by any donor or by any person on whose behalf the funds or personal property were solicited or received by the Principal.

(b) Said bond shall remain in force and effect for the entire period of the license. The sureties may cancel said bond and be relieved of further liability thereunder by delivering 30 days' written notice to the Department. Such cancellation shall not affect any liability incurred or accrued thereunder prior to the termination of said 30-day period.

(c) Any person who sustains any injury covered by said bond, may in addition to any other remedy that he may have, bring an action in his own name upon said bond for the recovery of any damage sustained by him.

(d) Upon such action being commenced, such bond shall not be void upon first recovery thereon, but may be sued upon from time to time until the whole of such penalty shall be exhausted. The Department may, in its discretion, require the filing of a new bond, and immediately upon the recovery in any action on such bond, such promoter shall file a new bond, and upon failure to file the same within ten (10) days in either case, the Department shall forthwith suspend such promoter's license to solicit.

(e) The time within which any action can be brought against a surety upon any bond filed hereunder may, by express provision of the bond to that effect, be limited to a period of two (2) years from and after the discovery, by the person aggrieved, of the act or default complained of.

As Amended by Ordinance No. 137,137

(4) Fee.

For filing such application the applicant shall pay a fee of $55.00 to the Department.

(5) Investigation.

The Department shall examine such application and shall make such further investigation of the applicant and its or his affairs as the Department shall deem advisable. If from such examination the Department shall be satisfied:

BEST COPY AVAILABLE

(a) That the applicant is of good character and reputation, or That every managing officer or agent of the applicant if the applicant is a corporation, is of good character and reputation, or if the applicant is an unincorporated association, firm or partnership, each member thereof is of good character and reputation.

(b) That applicant has sufficient financial responsibility to carry out the obligations incident to any solicitation such applicant may make within the City of Los Angeles as such promoter and that all of the statements made in such application are and each of them is true and that neither the applicant nor any officer, agent or member of the applicant has violated any of the provisions of this Article or has engaged in any fraudulent transaction or enterprise, and that the applicant intends to conduct its business fairly and honestly, the Department shall issue to the applicant a license to solicit as a promoter within the City of Los Angeles, contributions. Otherwise, the Department shall deny the application and refuse to issue a license, and shall notify the applicant of its decision. Provided, however, that if the only ground for such refusal or denial is such that it does not substantially affect applicant's honesty and integrity and if the inability of the applicant to meet any requirement will not in any way interfere with a proper performance by the applicant of his duties as such promoter, the Department may, in its discretion, waive such ground and grant the application; this proviso relates only to paragraphs (a) and (b) of this subsection.

(6) Revocation.

All licenses issued hereunder shall be subject to the condition that the applicant thereafter shall cease and desist from acting as a promoter within said City of Los Angeles when ordered so to do by the Department if the Department finds after a hearing, upon notice as provided in Section 22.02 of this Code, that any act or omission of such promoter or his agents or employees in making any solicitation or in the conduct of the business of promoter within the City of Los Angeles is unfair, unjust, inequitable or fraudulent. The Department must suspend or revoke any such license if, after hearing upon notice, the Department shall find the existence of any of the grounds hereinabove enumerated for the denial of an application for a promoter's license; provided, however, that such suspension or revocation shall be discretionary with the Department if the only ground for such revocation is such that it does not affect the licensee's honesty and integrity, or his ability properly to perform his duties as a promoter.

(7) Termination.

Every such license shall terminate or expire at the end of the year terminating on the 30th day of June in which such license is issued.

(8) Funds.

No promoter shall commingle any contribution with the promoter's own funds or property, or fail at any time to maintain and keep all contributions separate and apart from the promoter's own funds or property.

(9) Solicitors.

(a) It shall be unlawful for any promoter to cause or permit any person for pecuniary compensation or consideration received or to be received by such person to solicit or receive on his behalf or at his instigation, under his direction or control or in his employment, any contribution unless such person shall be registered as a solicitor by the Department.

As Amended by Ordinance No. 136,711

(b) Except as provided in Subsections (1) to (8), inclusive, of this Section, no person shall for pecuniary compensation or consideration solicit contributions for or on behalf of any other person, charitable association, corporation or institution unless such person be first registered by the Department. No person shall be so registered unless he shall first furnish satisfactory proof to the Department that he is a person of good moral character, that his reputation for honesty is good, and unless he first files with the Department, and thereafter maintains, a bond satisfactory to the Department and approved by the City Attorney in the sum of One Thousand Dollars ($1,000), conditioned for the payment of any direct pecuniary loss which may be sustained by any donee or by any person, corporation or association on whose behalf any contribution was solicited or received through any act of grand or petty theft committed by such person.

[illegible]

(f) That the bylaws and other written rules and regulations of such corporation or association define the powers and duties of the officers of such corporation or association, and that a copy of the Articles of Incorporation of said charity, if it be a corporation, and a copy of the Bylaws and other written rules and regulations of such corporation or association have been filed with the Department of Social Service.

(g) That within one year prior to its endorsement such corporation or association has not violated any law or ordinance applicable ot it.

(h) That the officers and employees of such corporation or association are persons of good moral character and reputation and that the corporation or association has exercised reasonable care in selecting persons of good moral character and reasonable experience as solicitors for its funds.

The Department shall issue said endorsement to any such corporation or association as shall comply with the aforesaid requirements. Said endorsement shall be valid for such time as shall be fixed by the Department but not exceeding one year from date of its issuance. The Department shall report to the Council upon request by it the name of any corporation or association which is endorsed or has been refused endorsement by it, with a general statement of the reasons for its refusal.

The Department shall also have power to request any endorsed corporation or association to make application for a new endorsement at or after the end of each fiscal year or at an earlier period if the Department shall deem such requirement advisable, and if said corporation or association shall not so do its endorsement shall be withdrawn.

VIOLATIONS OF THIS ARTICLE—PENALTY:

The violation of any provision of this article shall be punishable as provided in Section 11.00 (m) of the Los Angeles Municipal Code.

PREFACE

BEST COPY AVAILABLE

On January 1973 an Ad Hoc Committee was formed to review State Legislation regulating the solicitation of funds for charitable purposes. The committee has four objectives: 1)*the preparation of a compilation of existing state laws regulating the solicitation of funds for charitable purposes. 2) an in-depth analysis of each existing state law. 3) consultation with states who are contemplating new laws or amending existing laws. 4) the drafting of an up-to-date state "model law" regulating the solicitation of funds for charitable purposes. It is the considered judgement of the committee that a wide distribution of this forthcoming "model law" will be a substantial contribution to statutory uniformity on this subject for states contemplating new laws and states considering amendment of existing laws.

THE COMMITTEE:

Mr. Jack Grimes
The National Health Council , Inc.
1740 Broadway Street
New York, New York 10019

Mrs. Helen O'Rourke, Manager
Solicitations Review Section
Council of Better Business Bureaus, Inc.
1150 17th Street, N.W.
Washington, D.C. 20036

Mr. Henry Suhrke, Publisher
Non-Profit Report, Inc.
(Media Representative)
205 Main Street
Danbury, Connecticut

Mr. John J. O'Connor
Special Counsel
The National Foundation/March of Dimes
(Representative for the National Health
Agencies)
1275 Mamaroneck Avenue
White Plains, New York 10605

Mr. John Schwartz, President
Miss Joan Lundberg, Director Public Relations
American Association of Fund-Raising Counsel, Inc.
500 Fifth Avenue
New York, New York 10036

*THE FIRST OBJECTIVE HAS BEEN COMPLETED. THE COMPILATION OF EXISTING STATE LAWS WAS PREPARED BY HELEN O'ROURKE AND JOHN J. O'CONNOR.

This compilation reflects the state laws as of February 26, 1973, and will be updated periodically as needed. Permission to reproduce this compilation, in whole or in part, should be obtained from Mrs. Helen O'Rourke, Manager, Solicitations Review Section, Council of Better Business Bureaus, Inc., 1150 17th Street, N.W., Washington, D.C. 20036.

Single copies are available at 25¢ each. Prices in quantity lots will be quoted on request.

State Laws Regulating the Solicitation of Funds for Charitable Purposes

1 of 6

BEST COPY AVAILABLE

By Charitable Organizations						By Professional Fund Raising Counsel and Solicitors		
State	Effective Date	Regulatory Agency	Registration or Licensing	Form of Annual Report & Due Date	Cost Limitations	Registration or Licensing	Surety Requirements	Period for Filing Contracts With Charities
Arkansas	Since 7/1/59	Secretary of State	Registration	Within 90 days after close of calendar or fiscal year	None	Registration	$5,000	None, but contracts must be retained for 3 years
California	Since 6/30/59	Attorney General	Registration and reporting under Uniform supervision of Trustees for Charitable Purposes Act	Within 4 months & 15 days after close of calendar or fiscal year	None	None		
Connecticut	Since 1/7/64 as amended on 6/27/67	Welfare Department	Registration	In form prescribed by Department within 3 months after close of fiscal year	15% to Professional Solicitor	Registration	$10,000	Within 10 days
District of Columbia	Since 7/10/57 by an act of Congress	Office of Licenses and Permits	Registration	In form prescribed by DC Commissioner within 30 days after expiration or registration period	None	None		
Florida	Since 5/25/66 as amended on 10/26/67	Secretary of State	Registration	Within 6 months after close of fiscal year per accounting principals & on reporting forms consistent with National Health Council-NSWA	None	Registration by Professional solicitor	$10,000	Prior to beginning of any solicitation by professional solicitor

Cont.

A major omission in UWASIS is a program product which "counts" results. Originally, the intention had been to develop three levels of product: (a) the targets; (b) the effort; and (c) the results. The third level, however, was not possible to incorporate in this document. The "state of the art" is such that this most important level has yet to be developed for a large number of programs, particularly: those which require a long period of time to be realized (e.g., "Troop Type Programs"); those which represent only one of many influences to which a particular result can be attributed (e.g., "Neighborhood Development Programs"); and those whose end product is too intangible ever to be measured (e.g., "Group Worship Programs"). On the other hand, there are some programs whose results are self-evident merely upon being provided to recipients. The objectives ascribed to them are simple and concrete and there is no problem in ascertaining results (e.g., "Collection and Pickup of Donated Apparel Programs"). Unfortunately, however, the latter type of services and programs is too small a proportion of the wide gamut of human services to make worthwhile the attempt to define the third level. Nevertheless, measuring the effectiveness of services, where possible, in order to assess, among other things, their "market value," is probably the most important item on the United Way of America's work agenda. Meanwhile, UWASIS at least defines units of count of what kinds of things are done for whom and to what extent, in the case of those programs where it is feasible to do so. These counts are essential to many of the practical uses which are envisioned at this time for UWASIS.

UWASIS is a stage in the development of an allocating system which will effectively apply the resources at hand, at any given moment, to the meeting of human needs. Priorities plans, information systems, community surveys, opinion polls, and "new directions" in identifying needs are other stages. The aforementioned "Standards" of 1964 developed a tool for systematically accounting for expenditures on the basis of functions. UWASIS identifies the functions in relation to a scheme of goals and aspirations. As the delivery of human services becomes more sophisticated and as the contributors and consumers (of both voluntary and tax dollars) require surer evidence of cost effectiveness, there must be additional stages. Specifically, the following—if our solutions are to match our intent:

- A manual for budgeting and accounting to accompany the "Standards" and UWASIS.
- A system of delineating problems—including workable methods of collecting and analyzing the nature and extent of need (where and who the people are for whom human services are designed).
- A usable method to measure service effectiveness—one that is objective and operationally precise, and that includes both the efficiency of the delivery of service and the ultimate impact on the persons served.

United Way of America will produce a budgeting and accounting manual in the Spring of 1972. It is committed to contributing its bit in the development of the other stages of problem-delineation and results-measurement.

SOME WAYS OF USING UWASIS

As an examination of the outline may reveal, UWASIS can be used at any level of sophistication. At one extreme, some may prefer to remain with the six broad goals without breaking them down to services systems, services, etc. At the other extreme, executives, four Planning Council executives, and four budget directors) to help.[1] A two-day session was scheduled, to be held in Pittsburgh, Pennsylvania, in July 1971. During the month prior to the session, United Way of America staff collected, and distributed to participants, materials consisting of previous "catalogues," priorities plans and service classifications from selected communities, and various accounts of local experiences in dealing with program budgeting. UWASIS was conceived at that Pittsburgh session–with agreement on the conceptual framework on which a new set of program definitions would be based.

It now remained for United Way of America staff to fill in the spaces. This proved to be a major undertaking, notwithstanding the fact that, to the extent possible, existing definitions and published statements of objectives were incorporated into UWASIS. The task was made further complicated by three decisions made at the outset: (a) to make each definition mutually exclusive of all others (no duplication, therefore, among definitions and services); (b) to cover the total "waterfront," far beyond the customary array of health and welfare services; and (c) to restate each definition in UWASIS terms. Considerable research into existing publications–governmental and voluntary–became necessary.[2] The result of this work was a draft which was reviewed and endorsed by the "Pittsburgh Twelve" in early December 1971.

WHAT UWASIS IS AND WHAT IT IS NOT

UWASIS, as a scheme for identifying what kinds of things are being done to serve people, is like a map of the United States, in which spatial and directional relationships among states and cities are laid out. It is not like a map of Moscow, Idaho, which one would need in order to find a store in that particular town. In another sense, UWASIS is comparable to a glossary of terms, not, say, to an encyclopedia. It describes and identifies briefly and without elaboration, but an expert or scholar would find it superficial. Thus, the program descriptions indicate some of the things that are done, in a general sense, but they do not fully describe the many additional activities and their ramifications with which practitioners in the program in question would be familiar. Moreover, UWASIS does not distinguish–in its treatment of the subjects–among sizes and importance of programs. For example, equal space may be given to "Law Enforcement" and to "Friendly Visiting."

UWASIS is all-inclusive in the conceptual sense, but it is by no means all-inclusive in the literal sense. While it "covers the waterfront," it unquestionably leaves out innumerable programs. This probable exclusion of programs is somewhat mitigated by AIN, which stands for "Add If Necessary" and which, in the outline of UWASIS, appears at the end of each subsection. Some may have been omitted inadvertently. Others were omitted by design in order to limit the scope of this first attempt. Still others are included in broader categories and thus may not be separately identified. The purpose of "AIN" is to enable the user of UWASIS to expand on the programs to suit his own needs. Finally, as new programs are developed to deal with human problems, old programs may disappear. It should be understood, therefore, that some programs itemized in UWASIS may no longer be in existence even as UWASIS is published.

---

[1] The roster of the twelve appears in Appendix B.

[2] A list of publications used in developing UWASIS appears in Appendix C.

BEST COPY AVAILABLE

State Laws Regulating the Solicitation of Funds for Charitable Purposes

4 of 6

	By Charitable Organizations					By Professional Fund Raising Counsel and Solicitors		
State	Effective Date	Regulatory Agency	Registration or Licensing	Form of Annual Report & Due Date	Cost Limitations	Registration or Licensing	Surety Requirements	Period for Filing Contracts With Charities
New York	Since 9/1/54 as last amended on 7/1/71	Board of Social Welfare	Registration	Since 2/1/69 within 6 months of close of fiscal year per uniform standards prescribed by Board to effect uniform reporting (substantially similar to NHC-NSWA forms)	50% for mail solicitation via sending of unordered merchandise	Registration by professional fund raiser and professional solicitor	$5,000 for professional fund raiser	If with professional fund raiser, 10 days after made
North Carolina	Since 1939 as last amended on 9/1/69	Department of Social Services	Licensing	Within 120 days after end of fiscal year on forms adopted by Department	None			
North Dakota	Since 1961	Secretary of State	Licensing	Within 60 days after close of calendar or fiscal year on forms provided by Secretary of State	None			
Ohio	Prior to 1961	Attorney General	Registration	Since 1972–by March 31 or within 90 days after close of fiscal year on new forms almost identical with NHC-NSWA forms	None	Registration of professional fund raiser and professional solicitor	$5,000 for professional fund raiser	Contracts with professional fund raiser must be kept for 3 years by professional fund raiser
Oklahoma	Since 5/8/59	Commissioner of Charities and Corrections	Registration	By March 31 or within 90 days after close of fiscal year	None	Registration of professional fund raiser and professional solicitor	$2,500 for professional fund raiser	Contracts with professional fund raiser–with registration application & at all times thereafter

BEST COPY AVAILABLE

State Laws Regulating the Solicitation of Funds for Charitable Purposes

5 of 6

State	Effective Date	Regulatory Agency	Registration or Licensing	Form of Annual Report & Due Date	Cost Limitations	Registration or Licensing	Surety Requirements	Period for Filing Contracts With Charities
	By Charitable Organizations					By Professional Fund Raising Counsel and Solicitors		
Oregon	Since 1/1/64	Registrar of Charitable Trusts of Office of Attorney General	Registration and Reporting Under Supervision of Trustees for Charitable Purposes Act	Within 4 months and 15 days after close of calendar or fiscal year. Also, **since 1961 every charity collecting more than $250 in any twelve month period must file a separate report of fund raising receipts and expenses (inclusive of salaries) with the Attorney General within 4 months and 15 days after the close of its fiscal year**	None			
Penn.	Since 11/9/63 as amended on 10/26/72	Secretary of Commonwealth	Registration	Annually with registration statement per 1968 recommendation to follow NHC-NSWA standards & forms	35% re solicitation & fund raising expenses (including payments to professional solicitor & fund raiser) 15% to professional solicitor	Registration of professional fund raising counsel and professional solicitor	$10,000 for both	Within 10 days
South Carolina	Since 7/1/72	Secretary of State	Registration	Within 6 months after close of fiscal year per NHC-NSWA standards & forms	Reasonable percentage to professional solicitor	Registration by professional fund raising counsel and professional solicitor	$5,000	
		First State to enact verbatim the "Model for State Legislation Regulating Charitable Organizations" accepted and endorsed by thirteen national voluntary health agencies on August 11, 1970 and incorporated substantially in chapter on "Examples of Provisions of State Legislation" contained in the National Health Council's 1971 Revised Edition of "Viewpoints on State and Local Legislation Regulating Solicitation of Funds from the Public".						
Tennessee	Since 1961 as amended in 1963	Secretary of State	Registration	By July 31 on forms made available by Secretary of State	15% to professional fund raiser and professional solicitor	Registration by professional fund raiser and solicitor	None	Statement of arrangements with annual report of charitable organization

CBBB and Nat'l. Fdn./March of Dimes

UWASIS

United Way of America
Services Identification System
January 1972

United
Way
OF
AMERICA

801 North Fairfax Street
Alexandria, Virginia 22313
Tel: 703-836-7100

Only 16 percent of the responding United Ways stated that they were involved in some type of purchase of service contract with participating agencies. The survey defined these contracts as agreements with agencies for the provision of certain numbers of units of service for a pre-set price per unit. The percent of United Ways in the larger cities that report being involved in these contracts is higher than for the United Way movement as a whole. However, the overwhelming majority of United Ways—in both large and small cities—still appear not to utilize this allocations procedure.

About one-quarter of reporting United Ways state that they are using a Program Planning Budgeting approach to allocations. The extent to which this approach is utilized in the budgeting process was not determined. Over three-quarters of the reporting cities said that they did not utilize such an approach.

Slightly under 85 percent of all the United Ways reporting said that they do not provide funds for agency year-end deficits. This practice of not covering agency year-end deficits would, therefore, still seem to be fairly prevalent in the United Way movement. However, a considerably higher percent of larger cities either will consider, or actually do cover, agency year-end deficits than do cities raising smaller amounts of money. It is quite likely that larger cities are more flexible because they maintain larger reserves or contingency funds than do smaller United Ways.

Finally, slightly over 54 percent of the local United Ways state that they utilize the "deficit financing" principle in budgeting and allocating funds to agencies. However, nearly 80 percent of those cities raising $750,000 and over state that they deficit finance the agencies that they support. Other means of supporting agencies could involve providing financial support to agencies and programs through purchase of service, core administrative support, or direct grants to agencies.

ARTICLE 10-A--SOLICITATION AND COLLECTION OF FUNDS FOR CHARITABLE PURPOSES

(Added by L. 1954, c. 418, eff. Sept. 1, 1954)

Sec.

481. Definitions.

482. Registration of charitable organization.

482-a. Certain persons exempted.

482-b. Reports by registered charitable organizations; registration to be cancelled for failure to file.

482-c. Enforcement by attorney general.

482-d. Non-resident charitable organizations; designation of secretary of state as agent for service of process; service of process.

482-dd. Application of article.

482-e. Definitions.

482-f. Professional fund raisers.

482-g. Contracts to be retained.

482-h. Professional solicitor.

482-i. Enforcement by attorney general.

482-j. Non-resident professional fund raisers and professional solicitors; designation of secretary of state as agent for service of process; service of process.

482-k. Solicitation by unregistered charitable organizations or unregistered professional fund raisers a fraud upon the people of the state.

483. Unauthorized use of names when soliciting or collecting contributions.

483-a. Advisory council.

481. Definitions

The following words and phrases as used in this article shall have the following meanings unless a different meaning is required by the context.

1. "Charitable organization." Any benevolent, philanthropic, patriotic, or eleemosynary person or one purporting to be such.

2. "Contribution." The promise or grant of any money or property of any kind or value, including a grant or other financial assistance from any agency of government, but except payments by members of an organization for membership fees, dues, fines, or assessments, or for services rendered to individual members, if membership in such organization confers a bona fide right, privilege, professional standing, honor or other direct benefit, other than the right to vote, elect officers, or hold offices.

3. "Person." Any individual, organization, group, association, partnership, corporation, or any combination of them.

482. Registration of charitable organization

1. Every charitable organization, except as otherwise provided in section four hundred eighty-two-a of this article, which intends to solicit contributions from persons in this state or from any governmental agency by any means whatsoever shall, prior to any solicitation, file with the department upon forms prescribed by it, the following information:

a. The name of the organization and the name or names under which it intends to solicit contributions.

b. The names and addresses of the officers, directors, trustees, and executive personnel of the organization.

c. The addresses of the organization and the addresses of any offices in this state. If the organization does not maintain an office, the name and address of the person having custody of its financial records.

d. Where and when the organization was legally established, the form of its organization and its tax exempt status.

e. The purposes for which the organization is organized and the purpose or purposes for which the contributions to be solicited will be used.

f. The date on which the fiscal year of the organization ends.

g. Whether the organization is authorized by any other governmental authority to solicit contributions and whether it is or has ever been enjoined by any court from soliciting contributions.

h. The names and addresses of any professional fund raisers who are acting or have agreed to act on behalf of the organization.

2. The registration form shall be signed by the president or other authorized officer and the chief fiscal officer of the organization.

3. For filing such registration, the department shall receive a fee of five dollars, to be paid at the time of registration.

4. Such registration shall remain in effect unless it is either cancelled as provided in this article or withdrawn by the organization.

5. Every registered organization shall notify the department within ten days of any change in the information required to be furnished by such organization under paragraphs a or h of subdivision one of this section.

6. In no event shall a registration of a charitable organization continue, or be continued, in effect after the date such organization should have filed, but failed to file, an annual report in accordance with the requirements of section four hundred eighty-two-b, and such organization shall not be eligible to file a new registration until it shall have filed the required annual report with the department. If such report is subsequently filed such organization may file a new registration upon the payment of a fee of five dollars to the department.

7. Registration statements, financial reports, professional fund raisers' contracts, and other documents required to be filed pursuant to this article shall become public records in the office of the department.

482-a. Certain persons exempted

1. This article shall not apply to corporations organized under the religious corporations law, and other religious agencies and organizations, and charities, agencies, and organizations operated, supervised, or controlled by or in connection with a religious organization.

2. The following persons shall not be required to register with the department:

a. An educational institution the curriculums of which in whole or in part are registered or approved by the state education department either directly or by acceptance of accreditation by an accrediting body recognized by such department, an educational institution confining its solicitation of contributions to its student body, alumni, faculty and trustees, and their families, or a library registered by the state education department, provided that the annual financial report of such institution or library shall be filed with the state education department where it shall be open for public inspection.

Total United Way Allocations to Selected Agencies

Figures on this table are for the total United Way allocation in 1973 to a national agency and to its local affiliates. While most national organizations receive their financial support from dues paid by their local affiliates, some also receive direct allocations from local United Ways. Consequently, the reported dollar totals in this table will be higher sometimes than those elsewhere in the report.

Over 45 percent of all money allocated in 1973 by local United Ways went to 9 national agencies and their local affiliates. Another 5.8 percent went to settlement houses and hospitals. These two figures, taken together, account for over half of all the money allocated by United Ways in 1973. These 11 United Way allocations, in order by size, were to: Red Cross; Young Men's Christian Association (YMCA); Boy Scouts; The Salvation Army; Young Women's Christian Association (YWCA); settlement houses; Boys' Clubs; Girl Scouts; Visiting Nurse Association; hospitals; and Urban League.

Local United Ways reported providing the Red Cross with almost $105 million. The next largest reported allocation—$42.5 million—went to the YMCA. The Urban League, the recipient of the smallest allocation in this group, received a little over $10 million.

The next 10 largest allocations only accounted for about 8 percent of the total allocated. These agencies, in order of size of their respective allocation, were: National Association for Retarded Children; National Association for Mental Health; United Cerebral Palsy Association; Jewish Community Centers; Camp Fire Girls; United Service Organizations; Travelers Aid-International Social Service of America; Goodwill Industries; National Legal Aid and Defender Association; and Big Brothers.

Local United Ways reported allocating $7.7 million to the National Association for Retarded Children—the highest amount in this second grouping. The lowest amount in this second group—$3.2 million—went to Big Brothers.

1973 Local United Way Allocations to Selected Agencies by Metro Size

These tables provide information on the level of financial support provided to selected agencies by local United Ways. With the exception of the information on the National USO, all figures are based on United Way allocations made to the local affiliates of the respective national organizations. Local United Way allocations made directly to national parent bodies are not included.

The level of United Way support to these selected agencies is presented in three ways. First, the total amount of the local United Way allocations to the affiliates of a particular national organization is shown. Second, this allocation is presented as a percent of the total United Way allocations to all agencies in those cities that fund at least one affiliate of the national organization. Not all cities fund a Goodwill Industries affiliate, for example. The total United Way allocations from only those cities that fund such an affiliate are used in computing this percent. Consequently, United Ways across the country provided $26,378,361 to the YWCA. In those cities that funded the YWCA, this represented 4.3 percent of the total amount allocated. Similarly, United Ways allocated $21,352,331 to Boys' Clubs. In those cities supporting Boys' Clubs, this allocation also represented 4.3 percent of the total allocated. Third, information comparing the individual allocations made by United Ways to the individual total operating budgets of national agency affiliates is shown. United Way allocations are shown as percentages of total operating budgets of the national agency affiliates.

This last piece of information requires further explanation. Some of the affiliates of the national agencies appearing on the table receive local financial support from more than one United Way. A certain Boy Scout Council in the Midwest, for example, receives financial support from some 40 different United Ways. If the total operating budget of that Council was $1 million and each of the 40 United Ways allocate $12,500 apiece, the United Way movement would be supporting that Council in the sum of $500,000, or at 50 percent of its total operating requirement. However, since each United Way would be providing only

AGENCY AND SERVICE ALLOCATIONS

Total United Way movement allocations reported in this section will be slightly lower than they actually are since not all local United Ways responded to the 1973 Allocations and Expense Survey. These figures, as are all figures in this report, are based on responses from cities accounting for over 89 percent of the total money raised by the United Way movement. No attempt has been made to make projections to account for the missing 11 percent. Figures for Metros I through V (cities raising $750,000 and more) are complete since all United Ways in those cities responded to the survey.

1973 Local United Way Allocations by UWASIS Goals

This information shows local United Way allocations by the six UWASIS goal categories. These UWASIS goal categories are: Adequate Income and Economic Opportunity; Optimal Environmental Conditions and Provision of Basic Material Needs; Optimal Health; Adequate Knowledge and Skills; Optimal Personal and Social Adjustment and Development; and Adequately Organized Social Instrumentalities.

A non-UWASIS category of "Multi-Goal" has been added for allocations to agencies whose primary thrust was in more than one goal area. As a consequence of the 1973 survey's focus on allocations to agencies rather than programs, a number of agencies had to be assigned to the Multi-Goal category. These agencies represent nearly one-quarter of the total allocations.

Included in this Multi-Goal category were the Red Cross, The Salvation Army and the Urban League. Nearly $138 million of the $161 million categorized as Multi-Goal was allocated to these three organizations. This represents about 86 percent of the Multi-Goal category. When the allocations information can be produced completely on a program basis—rather than on an agency basis—this Multi-Goal category will not be necessary.

Local United Ways allocate very little money in three UWASIS goal areas: Adequate Income and Economic Opportunity; Optimal Environmental Conditions and Provision of Basic Material Needs; and Adequate Knowledge and Skills. Conceivably, a large portion of the money in the Multi-Goal category might, in fact, be distributed in these three goal areas. However, even with such a distribution, these goal categories will probably still remain small in comparison to the remaining three.

About 17 percent of the total amount allocated by United Ways was spent on Health. While this percent fluctuated from a high of 20 percent for cities raising under $25,000 to a low of 14 percent for cities raising between $1,000,000 and $1,999,999, the figure remained fairly constant at 17-18 percent for cities raising over $1,000,000.

Local United Ways spent 47 percent of their allocation dollar in the area of Optimal Personal and Social Adjustment and Development. Cities raising between $500,000 and $749,999 spent the most in this area—59 percent—while cities raising $9,000,000 and over spent the least—40 percent.

About 10 percent of the amount allocated was in the area of Adequately Organized Social Instrumentalities. This 10 percent does not include the cost of running the local United Way operation. Cities raising between $25,000 and $99,000 spent 1 percent of the total amount allocated in this area—the lowest amount for the movement as a whole. Cities raising $9,000,000 and more spent the most—15 percent.

A correlation seems to exist between the amount allocated to this goal area and the amount of money raised by the United Way. The proportion of the total amount allocated to this goal area tends to increase as the size of the United Way increases. More support is given to the community and neighborhood development, support of national organizations, equal opportunity services and coordination and outreach services in the larger communities. It should be noted that some of the needs necessitating these services may not exist in the smaller communities.

eighty-two of this article shall at all times be available for inspection, at the principal office of such organization, by the commissioner of social welfare and/or the attorney general, or their duly authorized representatives.

482-c. Enforcement by attorney general

1. An action for violation of this article may be prosecuted by the attorney general, or his deputy, in the name of the people of the state, and in any such action, the attorney general or his deputy, shall exercise all the powers and perform all duties which the district attorney would otherwise be authorized to exercise or to perform therein.

2. In addition to any other action authorized by law, the attorney general may bring an action in the supreme court, in the name and in behalf of the people of the state of New York, against a charitable organization and any other persons acting for it or in its behalf to enjoin such organization and persons from continuing the solicitation or collection of funds or property or engaging therein or doing any acts in furtherance thereof, and to cancel any registration statement previously filed with the department, whenever the attorney general shall have reason to believe that the charitable organization:

(a) is operating in violation of the provisions of this article;

(b) has refused or failed, or any of its principal officers has refused or failed, after notice, to produce any records of such organization;

(c) is employing or about to employ, or there is employed or about to be employed, in any solicitation or collection of funds or other property for such organization, any device, scheme or artifice to defraud or for obtaining money or property by means of a false pretense, representation or promise;

(d) has made a material false statement in an application, registration or statement required to be filed pursuant to this article; or

(e) is soliciting funds by mail where the soliciation includes the sending of goods, wares or merchandise not ordered or requested by the recipient and less than fifty percent of the total amount of the funds so raised is or will be devoted to the purported purposes of the charitable organization, which solicitation is hereby declared to be a fraud upon the people of the state of New York.

In connection with such proposed action the attorney general is authorized to take proof, issue subpoenas and administer oaths in the manner provided in the civil practice law and rules.

3. Upon a showing by the attorney general in an application for an injunction that any person engaged in the solicitation or collection of funds for charitable purposes, either as an individual or as a member of a copartnership, or as an officer of a corporation or as an agent for some other person, or copartnership or corporation, has been convicted in this state or elsewhere of a felony or of a misdemeanor involving the misappropriation, misapplication or misuse of the money or property of another, and who has not, subsequent to such conviction, received executive pardon therefor or a certificate of good conduct from the parole board, the supreme court, after a hearing, may enjoin such person from engaging in any solicitation or collection of funds for charitable purposes.

4. The attorney general may exercise the authority granted in this section against any charitable organization which operates under the guise or pretense of being an organization exempted by the provisions of section four hundred eighty-two-a and is not in fact an organization entitled to such exemption.

482-d. Non-resident charitable organizations; designation of secretary of state as agent for service of process; service of process

Any charitable organization having its principal place of business without the state or organized under and by virtue of the laws of a foreign state, or which shall solicit contributions from people in this state, shall be deemed to have irrevocably appointed the secretary of state as its agent upon whom may be served any summons, subpoena, subpoena duces tecum, or other process directed to such charitable organization, or any partner, principal, officer, or director thereof, in any action or proceeding brought by the attorney general under the provisions of this article. Any such charitable organization may file with the secretary of state a designation, in terms complying herewith, duly acknowledged, irrevocably appointing the secretary of state as its agent upon whom may be served any such process; provided, however, that a designation filed with the secretary of state pursuant to section three hundred fifty-two-a of the general business law or section two hundred ten of the general corporation law shall serve also as such designation. Service of such process upon the secretary of state shall be made by personally delivering to and leaving with him or a deputy secretary of state a copy thereof at the office of the department of state in the city of Albany, and such service shall be sufficient service provided that notice of such service and a copy of such process are forthwith sent by the attorney general to such charitable organization by registered mail with return receipt requested, at its office as set forth in the registration form required to be filed in the department pursuant to section four hundred eighty-two of this article, or in default of the filing of such form, at the last address known to the attorney general. Service of such process shall be complete upon the receipt by the attorney general of a return receipt purporting to be signed by the addressee or a person qualified to receive his or its registered mail, in accordance with the rules and customs of the post office department, or, if acceptance was refused by the addressee or his or its agent, ten days after the return to the attorney general of the original envelope bearing a notation by the postal authorities that receipt thereof was refused.

482-dd. Application of article

This article shall not be construed to limit or restrict the exercise of the powers or the performance of the duties of the attorney general or district attorney which they otherwise are authorized to exercise or perform under any other provision of law.

482-e. Definitions

The following words and phrases as used in this article shall have the following meanings unless a different meaning is required by the context.

1. "Professional fund raiser." Any person who for compensation or other consideration plans, conducts, manages, or carries on any drive or campaign in this state for the purpose of soliciting contributions for or on behalf of any charitable organization or any other person, or who engages in the business of, or holds himself out to persons in this state as independently engaged in the business of soliciting contributions for such purpose. A bona fide officer or employee of a charitable organization shall not be deemed a professional fund raiser.

appropriate amounts of government reimbursements.

The following analysis of information is based, unless otherwise noted, solely on the data collected in the 1973 Allocations and Expense Survey. As mentioned earlier, information in this report is based on responses from cities accounting for over 89 percent of the money raised by the United Way movement in 1972. Metro and Overall Total percents for many of the reports will not always add up to 100 percent since they have been adjusted to compensate for missing data.

Much of the information appearing in this report is aggregated by United Way Metro size. Local United Ways are classified into Metro groups I to XI, according to the amount of money raised in the annual fund-raising campaigns. The following is the definition of the Metro groups used in this report:

Metro	Amount Raised
I	$9,000,000 and over
II	4,000,000–8,999,999
III	2,000,000–3,999,999
IV	1,000,000–1,999,999
V	750,000– 999,999
VI	500,000– 749,999
VII	200,000– 499,999
VIII	100,000– 199,999
IX	50,000– 99,999
X	25,000– 49,999
XI	Less than $25,000

LOCAL UNITED WAY OPERATIONS

1973 Local United Way Function Expense

Slightly over 11 percent of the amount raised by the United Way movement in 1972 for use in 1973 was spent for local United Way operations. The amount allocated for 1973 local United Way function expenses can be broken down as follows:

- 40 percent for Fund Raising
- 20 percent for Management and General
- 20 percent for Planning
- 10 percent for Allocating and Agency Relations
- 10 percent for other United Way expenses

Planning expense figures represent the United Way allocation to either a separate United Way planning council or to its own planning department.

As can be seen, nearly twice as much was budgeted for fund raising as was for planning or management and general. The allocating and agency relations function received less than half of what was budgeted to planning.

In Metros I through VIII (all cities raising over $100,000), cities raising $9,000,000 and over (Metro I), spent the smallest percent–10.7 percent–for the operation of the United Way itself. Conversely, cities raising between $2,000,000 and $4,000,000 spent the most–12.1 percent. The movement average was 11.1 percent.

Of those cities raising $100,000 and more, Metro I United Ways allocated the smallest percentage–2 percent–for management and general. Cities raising between $100,000-$199,999 allocated the highest percentage–6.4 percent–for this function. The movement average was 2.7 percent.

Generally, the amount spent on management and general gradually increased as the size of the United Way campaign decreased. This reflects an inverse relationship between the size of the campaign and the percentage of the amount raised spent on management and general. The larger the amount raised, the smaller the percentage spent on management and general.

ANALYSIS OF INFORMATION

Before analyzing some of the key pieces of information in this report, some comments should be made on how this information should and should not be used.

No yardstick exists to measure the effectiveness of a local United Way's allocating and budgeting process in a given year. There is no magic formula that will provide community decision-makers with the answer to the question of how much should be allocated to the Boys' Club, or settlement house, or Girl Scouts. Similarly, there is no correct amount or percentage formula that can be utilized in arriving at the proper amount to be set aside for the running of the local United Way operation, itself.

Information appearing in this report states what currently exists, not what should necessarily exist, in an individual community, or what should exist in the United Way movement as a whole. However, knowing what exists at present is the first step toward moving to what should exist in the future.

United Way movement or Metro averages that differ significantly from those in a given community do not necessarily mean that the community's allocations are incorrect. A number of reasons may account for these differences. Certain factors that exist elsewhere may not exist in a specific community. Conversely, factors that exist in the community may not exist elsewhere. Furthermore, communities not following the general trend, may very well be the pace setters for a new trend.

While there are individual differences among local United Ways, there are also many similarities. The information in the report does provide a community with a basis to compare its allocations decisions with those of other communities across the country. Significant differences should raise questions in a local community. The community, itself, is in the best position to analyze whether there are sound reasons for these differences or whether some changes in allocations should be contemplated.

Specifically, a local United Way should ask itself a number of questions with respect to whether it is adequately performing its functions.

First, are sufficient resources being invested in the United Way operation itself? While the United Way movement prides itself on the low amount spent on central operating costs, local United Ways should determine whether enough is being spent in the community for these functions to be adequately conducted. The goal of the United Way is to serve people in need. This goal cannot be accomplished if inadequate resources are spent for fund raising, planning and allocating.

Second, is an amount that is sufficient, but not excessive, being set aside for uncollectable pledges? If the amount set aside is insufficient, less money will be available for agency and service allotments than had been allocated. If more money is held in reserve than is actually needed, financing of necessary services may have to be cut.

Third, how sound is the local United Way package with respect to the breadth and scope of agencies and services funded? The package should be broad enough to meet community needs and garner community support. It should also be trim and compact enough so that local United Way allocations have some impact on the agencies and services to which they are made.

Fourth, is the mix of support of agencies and services by the local United Way appropriate to the needs of the community? Does the level of support of a particular agency or service seem reasonable in the context of what the experience is in other communities? In this light, a local community should carefully review significant differences in funding levels between itself and other communities. A health service organization, for example, funded by the local United Way may not be obtaining to produce such papers, documents and books concerning the practices to which the action which he has determined to bring relates, and it shall be the duty of the justice of the supreme court to whom such application for the order is made to grant such application. The application for such order made by the attorney general may simply show upon his information and belief that the testimony of such person or persons is material and necessary. The provisions of the civil practice act, relating to an application for an order for the examination of witnesses before the commencement of an action and the method of proceeding on such examination, shall not apply except as herein prescribed. The order shall be granted by the justice of the supreme court to whom the application has been made with such preliminary injunction or stay as may appear to such justice to be proper and expedient and shall specify the time when and place where the witnesses are required to appear. The justice or referee may adjourn such examination from time to time and witnesses must attend accordingly. The testimony of each witness must be subscribed by him and all must be filed in the office of the clerk of the county in which such order for examination is filed. The order for such examination must be signed by the justice making it and service of a copy thereof with an endorsement by the attorney general signed by him or his deputy, to the effect that the person named therein is required to appear and be examined at the time and place and before the justice or referee specified in such endorsement, shall be sufficient notice for the attendance of witnesses. Such endorsement may contain a clause requiring such person to produce at such examination all books, papers and documents in his possession or under his control relating to the subject of such examination. The order shall be served upon the person named in the endorsement aforesaid by showing him the original order and delivering to and leaving with him at the same time a copy thereof, endorsed as above provided, and by paying or tendering to him the fee allowed by law to witnesses subpoenaed to attend trials of civil actions in any court of record in this state.

§ 482-j. Non-resident professional fund raisers and professional solicitors; designation of secretary of state as agent for service of process; service of process

Any professional fund raiser or professional solicitor resident or having his or its principal place of business without the state or organized under and by virtue of the laws of a foreign state, who or which shall solicit contributions from people in this state, shall be deemed to have irrevocably appointed the secretary of state as his or its agent upon whom may be served any summons, subpoena, subpoena duces tecum, or other process directed to such professional fund raiser, professional solicitor or any partner, principal, officer, or director thereof, in any action or proceeding brought by the attorney general under the provisions of this act. Any such professional fund raiser or professional solicitor may file with the secretary of state a designation, in terms complying herewith, duly acknowledged, irrevocably appointing the secretary of state as his or its agent upon whom may be served any such process; provided, however, that a designation filed with the secretary of state pursuant to section three hundred fifty-two-a of the general business law or section two hundred ten of the general corporation law shall serve also as such designation. Service of such process upon the secretary of state shall be made by personally delivering to and leaving with him or a deputy secretary of state a copy thereof at the office of the department of state in the city of Albany, and such service shall be sufficient service provided that notice of such service and a copy of such process are forthwith sent by the attorney general to such professional fund raiser or professional solicitor by registered mail with return receipt requested, at his or its office as set forth in the registration form required to be filed in the department pursuant to sections four hundred eighty-two-f and four hundred eighty-two-h, of this act, or in default of the filing of such form, at the last address known to the attorney general. Service of such process shall be complete ten days after the receipt by the attorney general of a return receipt purporting to be signed by the addressee or a person qualified to receive his or its registered mail, in accordance with the rules and customs of the post office department, or, if acceptance was refused by the addressee or his or its agent, ten days after the return to the attorney general of the original envelope bearing a notation by the postal authorities that receipt thereof was refused.

§ 482-k. Solicitation by unregistered charitable organizations or unregistered professional fund raisers a fraud upon the people of the state.

1. No charitable organization required to be registered pursuant to this article shall employ any professional fund raiser required to be registered pursuant to this article unless and until such fund raiser is so registered.
2. No professional fund raiser required to be registered pursuant to this article shall enter into any contract or raise any funds for any organization required to be registered pursuant to this article unless such charitable organization is actually so registered.
3. No professional fund raiser required to be registered under this article shall employ any professional solicitor who is not registered in accordance with this article.
4. In addition to all other remedies provided by law the attorney general may bring an action to enjoin the violation of the provisions of this section. The attorney general may give notice of at least fifteen days in writing by registered or certified mail to the organization, person or persons violating the provisions hereof, requiring that registration be accomplished or that the solicitation of funds be immediately terminated. The failure to immediately discontinue solicitation or to register in accordance with the provisions of this article within fifteen days of service of such notice shall be deemed to be a continuing fraud upon the people of the state of New York.

(This section shall take effect September first, nineteen hundred sixty-four.)

country raising $750,000 and over responded. Over 79 percent of all cities raising $200,000 or more responded. The reporting cities represent 89 percent of all money raised by the United Way movement.

On the basis of this response rate, it may be safely assumed that data from nonresponding United Ways would have very little, if any, effect on the information produced and appearing in this report.

This year's procedure has not been without its difficulties. While the final response rate was excellent, the time taken to achieve this result has delayed until late in the year the processing and publication of the 1973 report. Definitions and instructions were more refined this year than in the past, but further work in this area—to ensure comparability among cities—is necessary. While the rate of response from local United Ways was extremely high, a number of cities found it difficult to complete the survey in full. This was especially so with respect to "Section 2—Local United Way Allocations to Agencies." Most cities were able to complete this section as requested. However, a number of cities had difficulty providing total operating budget information for some of their respective participating agencies. A number of cities also had difficulty in providing information on the amount of dues going to national parent organizations from local affiliates.

With respect to the first problem, Metro and Overall Total percentages have been adjusted to compensate for nonresponses. These adjusted percents present a more accurate picture of the actual level of United Way support going to specific agencies and services, for example, than would otherwise be the case. National dues information has been omitted from the report.

THE FUTURE

It is envisioned that the allocations information base is dynamic and constantly being modified, expanded and made more useful to the United Way movement. Publication at an earlier time in the year, allocations information by program, agency income broken out by source, and trend information are just four examples of areas of future work.

United Way of America anticipates publishing *1974 Local United Way Allocations* by early September, 1974. Next year's survey will be mailed out to the field earlier in 1974 than was possible this year. With the cooperation of local United Ways, it is hoped that the time it takes to obtain all the survey responses will be drastically cut. If this is accomplished, the 1974 report will be disseminated to the United Way movement prior to, rather than after, most of the Fall budgeting and allocations sessions.

The ultimate goal is to produce information on local United Way allocations to programs, as well as to the agencies that house these programs. This information will also include the amount spent on management and general by the participating agencies to support the direct service programs provided. Together, these two pieces of information will provide, for the first time, a picture of what programs are being purchased by the United Way movement and what the total administrative cost is—both on the United Way level and on the agency level—of providing these programs.

The 1973 Allocations and Expense Survey requested information on the United Way allocations to agencies, as well as the total operating budgets of these agencies. Information is presently available on the average level of support of member agencies by individual local United Ways. Some local agencies receive financial support from more than one United Way. Consequently, some of the reported "outside income" of agencies, in fact, comes from other United Ways.

Further work is necessary to delineate the sources of agency "outside income." One aspect of this effort would involve producing information on the level of United Way movement support to specific agencies. This information would take into account the above-mentioned fact that some local agencies receive funding from a number of United Ways. A second aspect of this effort would involve producing information on the

INTRODUCTION

BACKGROUND

United Way of America is starting to build a more comprehensive and useful allocations information base than existed previously.

This information base will be the source from which the yearly local United Way Allocations Report will be produced. It will also contain other non-published allocations information. The most frequently asked questions on agency allocations and local United Way operating costs will be answered in the yearly reports. The non-published information will be used to answer specific and detailed questions from local United Ways that come into the National Office throughout the year. Additionally, this non-published information will be used for research purposes. It is hoped that, as information from future years' allocations surveys are added to the information base, trend line information can be developed and subsequently published.

1973 Local United Way Allocations marks a milestone in the creation of this new allocations information base.

After experiencing a poor response rate and some difficulty in processing the 1972 Data Base Report #3, United Way of America spent considerable time in revising and modifying the entire allocations information base.

This involved determining what information would be produced in 1973. United Way of America checked with a number of the larger cities about the feasibility of asking local United Ways to report their 1973 allocations on a program or function basis. While a number of those contacted said that they would be able to provide this information, many noted that it would be extremely difficult or impossible for them to do so. The best they could do this year would be to provide United Way of America with the 1973 allocation for each agency as a whole.

With this constraint in mind, United Way of America determined that it would not be feasible this year to collect and produce allocations information on a program basis. However, in moving toward this important goal, a coding scheme was developed, incorporating both an agency and a program focus. The scheme generally followed the United Way of America Services Identification System (UWASIS). While local United Ways were asked this year to code an agency by its primary program focus, the scheme, with minor modifications, can be used in the future to obtain and produce allocations information by program.

In addition to the coding scheme, forms, instructions and sample information reports were developed. Computer programs for processing the collected data into the appropriate reports were also written and tested.

In late March, 1973, a pretest of the 1973 Allocations and Expense Survey was conducted with the cooperation of 25 local United Ways across the country. This pretest resulted in a number of suggestions, which were incorporated into the forms and instructions.

The final version of the 1973 Allocations and Expense Survey was mailed to all member United Way allocating organizations on May 30, 1973. United Way of America asked that it be returned by July 10, 1973, allowing local United Ways six weeks to complete and return the survey. United Way of America spent July, August, and early September recontacting cities from whom responses had not been received. This report, the first of what will be an annual publication, is the culmination of the 1973 process.

The rate of response to the 1973 Allocations and Expense Survey was excellent. All United Way organizations in the

FOREWORD

Traditionally, Better Business Bureaus have been responsible for establishing standards of ethical conduct in many industry areas.

In order to promote an acceptable quality of public service and conduct among all organizations engaged in charitable solicitation, the Better Business Bureaus have developed these basic standards relating to the structure, finances, fund-raising methods, and the advertising and informational material of such organizations. Technical assistance has been provided by those interested and involved in charitable solicitations.

These standards do not apply to an appeal conducted by a church, fraternal, civic, professional or trade group, or any other organization, if the appeal is confined and directed exclusively to the organization's membership or if the appeal is only an invitation to membership or request for support without any charitable purpose associated with the appeal.

Nothing in these standards is intended to restrict charitable solicitations. Both the general public and soliciting organizations will benefit by full and accurate disclosure of all information which a donor may need and reasonably wish to consider before making a contribution.

In addition to these standards, there are federal, state and local laws relating to charitable solicitations.

Adherence to these standards by all organizations engaged in charitable solicitations will inspire public confidence in philanthropy and will advance the principle of self-regulation.

agencies to which the monies are allocated. It incorporates the "Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations" of 1964. It incorporates UWASIS. It allows for program budgeting possibilities, and it incorporates the latest American Institute of Certified Public Accountants' recommendations for "Audits of Voluntary Health and Welfare Organizations." The Accounting Manual will be presented in such a way that it will be possible for the principles and practices therein to be used either manually or via EDP.

5. Analysis, discussion, and evaluation of workability, of priorities policies and plans, slated for publication in May 1974. It will go into the conditions in local communities that are conducive to the use of priority planning approaches, the appropriateness of applying proper implementation methods, and the key need to involve all participating agencies in the process.

6. Budgeting and Allocating Manual, slated for publication in early 1975. It will be a culmination of what started as a "Paper" in December 1972. That paper was entitled "A PPBS Approach to Budgeting Human Service Programs for United Ways." As a paper, it was merely an idea of a way to go about an alternative form of budgeting, involving agency goal setting, as well as local United Way goal setting. During late 1972 and most of 1973, a number of processes were gone through, involving regional offices, national agency representatives, and local United Way volunteers and professionals. The object of the process was to look at the possibility and limitations in applying a PPBS system to our own budgeting needs. Regardless of that particular process, the field is in need of a detailed "how to" manual for budgeting agency programs and allocating funds on the basis of careful evaluation.

7. Needs delineating methods, slated for production in mid-1975 -- the attempt is to develop a method of identifying where the people are and what problems they possess in local communities. The tool to be developed will be how to determine target areas and to justify expenditures of program efforts in such areas.

8. By early 1976, we hope to come up with the development of an effectiveness assessment method. This would be, in effect, the ultimate product, the goal to which all these other tools are directed, namely, how do we know what good we do with our services and our programs. Our current state of the art is such that no one has come up with a usable, acceptable, effective tool for measuring program effectiveness. We can measure effort, namely, how many sessions we hold, how many people we put into a project, how long clients spend in treatment, etc. But we have, as yet, not identified a method for measuring the ultimate impact -- for good or ill -- on the clients.

April 3, 1974

UNITED WAY OF AMERICA

THE HOUSE OF ACCOUNTABILITY

United Way of America, for the past three years, has been working on tools for use in local communities which are designed to make rational and effective the way in which local United Ways allocate their funds. This structure of tools is what has come to be called "The House of Accountability."

The tools are as follows:

1. *UWASIS (United Way of America Services Identification System) -- our first -- came out in January 1972. Objective: to define the gamut of human services that ameliorate problems, enhance the human condition, promote welfare, prevent disaster, create a milieu of viability and livability in every walk of life. UWASIS is a scheme for sorting out what we do in behalf of each other in an organized way -- governmental, voluntary, proprietary, nonprofit. Ultimately, it is a tool to develop a uniformity and a comparability across the nation, as well as between and among different services and problems. The first UWASIS laid the framework, and, as a beginning, was relatively crude. The next UWASIS will incorporate many of the constructive criticisms UWASIS has had in its first year from "customers" who, among them, have ordered some 15,000 copies since publication. The revised UWASIS, slated for publication in early 1975, will be an added dimension to the objective of achieving comparability and uniformity.*

2. *Standards of Excellence came out in December 1972. It was a product of the professionals' and volunteers' convictions about what the United Way movement ought to be and how local United Ways ought to operate. It uses the format of the Management by Objective system. It contains objectives, programs and program elements. It is a convenient check list for local measurement of their roles and missions.*

3. *Allocations Information for 1973. It took almost a year to develop the system, but we published in December 1973, the first complete picture as to where the funds that are raised actually go, not only in support of the internal expenses of United Way organizations, but in support of the agencies to which these funds are allocated. As ensuing years produce comparable information, trend lines can be drawn, and, ultimately, the program services to which the dollars go, as well as the agency labels, will be measured.*

4. *The Accounting Manual, slated for publication in July 1974, will contain standards and models and directions useful for application by local United Ways, not only in relation to reporting its own expenditures and income but expenditures and income of the*

B. Voting members of the governing body should serve without compensation.

III. Finances

A. Upon request, soliciting organizations shall provide to the public full and accurate financial reports in accordance with the latest edition of the Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations (published by the National Health Council and the National Assembly for Social Policy and Development) or in accordance with the generally accepted standards of accounting for the organization's particular field.

B. Soliciting organizations shall obtain an annual external audit from an independent or certified public accountant and make the audit available to the public upon request.

C. Soliciting organizations shall include in their annual audit or in audits following limited campaigns all costs, including all receipts from canisters, collection boxes, tag days, telethons, walk-a-thons, benefits, raffles, bingo contests, and other special fund-raising activities.

D. Fund-raising expenses shall include expenses of all activities that constitute or are an integral and inseparable part of an appeal for financial support and shall be disclosed to the public upon request.

IV. Fund-Raising

A. Soliciting organizations shall provide to the public at the time of an appeal a clear and concise description of the programs and activities for which contributions are being solicited.

B. Soliciting organizations shall not pay commissions, kick-backs, finders' fees, percentages, bonuses or overrides for fund-raising.

C. Soliciting organizations mailing unordered merchandise shall clearly disclose that recipients are under no obligation to pay for or return the items received.

D. Soliciting organizations shall not mail appeals disguised as invoices, bills, or statements of account.

E. Soliciting organizations shall not use paid telephone solicitors. Any telephone appeals by volunteers shall accurately disclose at the outset of the call the name of the soliciting organization and the purpose of the appeal.

F. Soliciting organizations shall institute adequate systems of control over canisters or collection boxes, tag days, telethons, walk-a-thons, benefits, raffles, bingo contests, and other special fund-raising activities.

D. Testimonials or endorsements shall be quoted in their entirety, unless failure to do so does not alter the overall meaning and impact of the testimonial or endorsement.

E. Testimonials and endorsements shall be genuine and actually represent the current opinion of the endorser.

F. If the endorser is associated with some well-known and highly regarded institution, it shall be clearly disclosed whether the endorser speaks in a personal capacity or on behalf of such institution.

G. Advertising and informational materials shall not use an endorsement or approval by indefinitely large or vague groups, such as "the doctors of America".

C. If models are used to portray recipients of aid or beneficiaries of programs and services, clear disclosure of that fact shall be made in immediate conjunction with the portrayal.

D. If photographs are used, dates and sources shall be disclosed.

V. Testimonials and Endorsements

A. Statements in advertising and informational materials by doctors, dentists, nurses or other professional people shall be presented by members of such professions reciting actual experience, or it shall be made apparent from the presentation itself that the portrayal is dramatized. No such presentation may be placed on television except in the context of a public service announcement approved by the broadcaster.

B. Persons making testimonials, endorsements, or who are pictured in advertising or informational materials shall be fully identified as to their relationship with the organization and their actual experience with the organization's programs and services.

C. If an endorser has a direct pecuniary interest in the organization whose program or service he endorses, this shall be disclosed in the advertisement or informational materials.

C. Advertisements or informational materials may be considered misleading as a whole although every sentence separately considered is literally true.

D. Misrepresentation may result not only from direct statements but by omitting or obscuring a material fact.

E. Soliciting organizations shall be prepared to substantiate any statements or claims made before publication and, upon request, present such substantiation promptly to the advertising medium, the Better Business Bureau and the public.

II. General Requirements

A. Advertising and informational materials shall not disparage any person or group on grounds of sex, race, color, creed, age or nationality.

B. Statistical data shall be based on realistic or representative situations.

C. All claims or promises shall be in accordance with existing conditions, situations and circumstances.

D. An asterisk or other reference symbol shall not be used as a means of contradicting or substantially changing the meaning of any statement.

E. Advertising and information materials shall not state or allude in any way to compliance with or adherence to the provisions of these standards.

F. The words "Better Business Bureau" shall not be used in any advertising or informational materials.

III. Programs and Services

A. Any description or reference to a program or service by a soliciting organization shall be factual and accurate.

B. Advertising and informational materials shall clearly state any limitations in eligibility to benefit from an organization's program (e.g., specific facilities, geographic areas, or classes of persons).

C. Advertising and informational materials shall disclose the specific name and address of the charitable organization from which the public may obtain additional information regarding the organization's programs and services.

IV. Layout and Illustration

A. The composition and layout of advertising and informational materials shall be such as to minimize the possibility of misunderstanding by the reader.

B. Photographs, films and illustrations of programs, services or recipients of aid shall be accurate representations of the programs, services and recipients of aid of the soliciting organizations.

PART TWO
ADVERTISING AND INFORMATIONAL MATERIALS

The following standards shall apply to all advertising and informational materials directed to the contributing public by charitable organizations, in whatever form and by whatever means, including, but not limited to, print and broadcast media, direct mail literature, window display signs, counter cards, public notices, canisters, brochures and flyers. They are intended as guidelines to assure that all public communications accurately and factually represent the needs, programs and services of charitable organizations.

It is recognized that due to time and space limitations in advertising such as spot announcements and small print ads, it may be impractical and economically unfeasible to make all of the disclosures required by these standards. In such cases, the charitable organization shall submit the required disclosures to the medium with its proposed advertising.

I. Basic Principles

A. The primary responsibility for truthful and non-deceptive advertising and informational materials rests with the soliciting organization.

B. Advertisements and informational materials shall not be untrue, misleading, deceptive or fraudulent in whole or in part.

G. Soliciting organizations shall not use intimidation.

H. Soliciting organizations shall disclose at the time of an appeal whether or not a contribution is deductible for federal, state and local income tax purposes.

I. Soliciting organizations providing goods, admission to fund-raising activities, or other services in return for payment shall clearly disclose the portion of payment deductible for tax purposes.

J. Soliciting organizations shall not sell the names and mailing addresses of their contributors or members.

K. Soliciting organizations shall not disclose or use, without obtaining advance written consent, the name of any person as a member of the Board of Directors, as serving in any other executive capacity, or as an endorser of the organizations' programs.

BBB COUNCIL OF BETTER BUSINESS BUREAUS, INC.
THE INTERNATIONAL ASSEMBLY OF BETTER BUSINESS BUREAUS

January 4, 1974

Mr. Harvey Katz
Office of Senator Walter Mondale
443 Old Senate Office Building
Washington, D.C. 20510

Dear Mr. Katz:

In an effort to obtain the broadest possible input for the Council of Better Business Bureau's Standards for Charitable Solicitations, we have held meetings with representatives from fund-raising organizations, media, and leading donors to charities, and have obtained comments from many others.

The attached draft represents the result of much discussion and careful analysis of all input. We hope these Standards will be available for issuance by the end of January. Accordingly, I would appreciate any additional comments you may have by January 21, 1974.

We feel that the prompt issuance of these Standards is the best possible way to start the new year with CBBB's new Philanthropic Advisory Department under the direction of Mrs. Helen O'Rourke.

Thanks very much for your continuing assistance in this program.

Sincerely,

Dean Determan

Dean W. Determan
Vice President
Standards and Practices Division

DWD:ag

cc: Mrs. Helen O'Rourke

1150 17TH ST. N. W. • WASHINGTON, D. C. 20036 • (202) 467-5200

A Monthly Solicitations Review Newsletter

IN-SIGHT

**Council
of
Better
Business
Bureaus, Inc.,**
TRADE PRACTICES DEPARTMENT

Vol. II No. 3

April - May 1973

TO GIVE OR NOT TO GIVE - VOLUNTEER TIME OR USE OF YOUR NAME

Every American desires to be a good citizen and to participate equitably in the support of charitable, welfare and educational programs which are meritorious and beneficial. There are many vitally needed and soundly operated benevolent organizations that need volunteer help with such programs.

A fundamental principle of fund-raising for non-profit organizations is that ideally the actual contact and appeal for support should be performed by volunteers who are dedicated to the cause of the organization and are willing to approach their peers to secure needed support.

However, before devoting time, money, or name to a charitable organization, volunteers should consider the following:

1. Has the organization complied with all applicable state and/or local laws and ordinances relating to public fund-raising? Have the necessary permits been obtained?

2. Is there a definite need for the organization or will it duplicate the work of another established agency?

3. Can you place reliance on the statements of the officers and directors?

4. Is sufficient information available regarding the aims, objectives, management, and direction of the organization to answer inquiries from donors concerning the project and its officers, directors and staff?

5. Who is promoting it, and what are the terms of payment for that service? There should not be payment of commissions for fund-raising. This includes all methods of fund-raising.

6. Will there be a satisfactory control of the funds, as well as a full and proper audit and accounting of all monies? Is a recent audit by a certified public accountant available?

7. Is the amount to be raised commensurate with the needs of the project?

8. Does the budget show that only a reasonable percentage of the income be used for overhead, advertising, and administration expenses?

9. Will the campaign of the organization be conducted in an ethical, straight-forward way?

10. Are you willing to have your closest personal friends donate to the cause SOLELY because your name appears as one of the sponsors?

11. Are the directors ready and willing to devote sufficient time to the direction and management of the group to insure proper protection to those who rely upon their sponsorship when making contributions?

12. What is the tax status of the organization?

13. Are the contributions deductible as charitable contributions for Federal income tax purposes?

14. Check with your local Better Business Bureau or Chamber of Commerce when in doubt.

PART ONE

PURPOSES, STRUCTURE, FINANCES, AND FUND-RAISING METHODS

I. Purposes and Programs

A. Soliciting organizations shall have a formally stated purpose which shall serve as a basis for and be described in all solicitations.

B. Soliciting organizations shall be operated in accordance with their stated purposes and applicable laws.

C. Should eligibility to benefit from an organization's program be limited for any reason (e.g., specific facilities, geographical areas, or classes of persons), such limitations shall be clearly and fully disclosed in all solicitations.

D. Upon request, soliciting organizations shall clearly disclose the responsibilities, activities and operating facilities of their national, regional and local offices.

E. Upon request, soliciting organizations shall make available a detailed description of its actual accomplishments.

II. Structure

A. Soliciting organizations shall have an active and responsible governing body operating under by-laws which ensure control and fulfillment of the organization's stated purposes and objectives at all levels of operation.

DEFINITIONS

As used in these standards, the following words and phrases shall have the meanings indicated:

A. "Charitable solicitation" means any request directly or indirectly for money, credit, property, financial assistance, volunteer service, or other thing of value on the plea or representation that it will be used for charitable, patriotic, benevolent, educational, civic or fraternal purposes. It does not mean an appeal conducted by a church, fraternal, civic, professional or trade group, or any other organization, if the appeal is confined and directed exclusively to the organization's membership or if the appeal is only an invitation to membership or request for support without any charitable purposes associated with the appeal.

B. "Soliciting organization" means any group, corporation, association, partnership or individual engaged in charitable solicitation.

C. The "public" includes, but is not limited to, groups, corporations, foundations, institutions, and individuals.

D. "Advertising and informational material" includes, but is not limited to, advertising, informational and educational material in print and broadcast media, paid and public service announcements, direct mail, window display signs, counter cards, public notices, canisters, brochures and flyers.

These tools have been and are being developed because of the following factors:

1. *The United Way system in local communities is no longer solely in existence for the purpose of raising funds. In the old days of the Community Chest, the so-called federated fund-raising mechanism created a common "pot of gold," which, after each campaign, was divided up among members of the "federation." Today, the United Way system is addressed primarily to the interests of donors and consumers. It incorporates the functions of fund raising, fund spending and planning ahead for future needs and resources.*

2. *The United Way is an integral part of a given community's total process of coping with needs for human services. In this light, it fits its dollars, its voluntary effort, and its plans into the dollars, efforts and plans of other sectors, including the very important public, tax-supported sector.*

3. *As times change and peoples' problems change, services provided by agencies need to change. The United Way increasingly, therefore, must act as a change-agent. It no longer merely accepts agency history and agency traditions, without critical evaluation.*

THE SOLICITATION AND COLLECTION OF CONTRIBUTIONS FOR CHARITABLE PURPOSES

Article 10-A of the Social Services Law

January, 1969

State Board of Social Welfare
Bureau of Charitable and Proprietary Organizations
Charities Registration Section
1450 Western Avenue
Albany, New York 12203

State Laws Regulating the Solicitation of Funds for Charitable Purposes

6 of 6

	By Charitable Organizations					By Professional Fund Raising Counsel and Solicitors		
State	Effective Date	Regulatory Agency	Registration or Licensing	Form of Annual Report & Due Date	Cost Limitations	Registration or Licensing	Surety Requirements	Period for Filing Contracts With Charities
Wisconsin	Since 1961 as amended in 1969	Department of Regulation and Licensing	Registration	Within 3 months after close of calendar or fiscal year on forms prescribed by Department	25% for each special event raising more than $500.00	Registration for professional fund raiser and solicitor	$5,000 for professional fund raiser	Must be kept by charity & professional fund raiser for 3 years
Washington	Jan. 1, 1974	Department of Motor Vehicles	Registration	Within 90 days after close of fiscal year on uniform reportings forms provided by Department ALSO at discretion of Department within 30 days after close of any special solicitation	20% for direct gifts and 55% for sale and benefit affairs	Registration for professional fund-raisers and solicitors	$5,000 for professional fund raiser	
Kansas	Since 1911 as amended in 1957 & 1959	Secretary of State	State-wide Solicitation Certificate issued to charities soliciting in more than one county	None	None	None	None	None

NOTE: Printed by the Council of Better Business Buresus

CBBB and Nat'l. Fdn./March of Dimes

BEST COPY AVAILABLE

GUIDELINES FOR USE OF UWASIS

The United Way of America Services Identification System (UWASIS) describes programs within the framework of fundamental goals in the field of human services. UWASIS outlines: the basic social goals; the services systems which promote such goals; the specific services in such systems; the programs which perform such services; some elements of such programs; and suggested program products—in terms of types of persons served and efforts expended in their behalf.[1] Thus, UWASIS identifies six basic goals, 22 services systems, 57 services, and 171 programs. Included in UWASIS are most of the organized, identifiable and currently operative endeavors—governmental and voluntary—which are addressed to preventing, ameliorating or solving human problems and to enhancing the human condition.

It should be noted, however, that UWASIS is merely a beginning. It is intended to be a "keystone" in the arch of comprehensively developing proper directions in needs delineating, priorities planning, problem-solving, and service-delivering. But, like any new "keystone," its shape and its strength are yet to be tested. In publishing this document, therefore, United Way of America fully recognizes that additions, corrections and refinements will be necessary as UWASIS is actually put to practical use.

Meanwhile, UWASIS is offered to such potential "users" as local United Way budget directors and planners, governmental fund-appropriators, and direct service agency directors—as they, respectively, identify the different ways in which human problems and aspirations are currently dealt with. Even as large plans are made, as innovations are devised, as major issues are tackled, it is United Way of America's conviction that programs delivered to people need identification—and that such identification should be uniform and comparable throughout the nation. Hence, UWASIS.

The remainder of this section consists of comments on: the purpose of this document; the background for its publication; what UWASIS is and what it is not; some ways of using it; and a plea to all readers and users that they help United Way of America to improve it, as it is tested in the coming months and years.

PURPOSE

The purpose of UWASIS is to set human service programs in proper perspective. It appears desirable to do this, since our times and circumstances are so complicated, our problems so pervasive, and our solutions so elusive that we tend increasingly to take refuge in our respective areas of assumed responsibility—carefully "honing" the dimensions of our particular tasks to a high polish, without sufficient regard for other tasks and other areas of responsibility.

Thus, supporters of day care programs may not be concerned at the moment with air traffic control, or governmental departments may not be interested in voluntary agency efforts. In an age of specialization, this is inevitable. And, advocacy is the order of the day—as people involve themselves in doing something about the human condition within the limits of their respective life styles and job descriptions. Yet resources—limited as they are by any given time's human capacity, knowledge and will—must be husbanded and judiciously distributed.

---

[1] A glossary of basic UWASIS terms appears in Appendix A.

All human services strive for one ultimate goal: a happy life for each human being on this planet. While definitions of happiness are as varied as there are people, and obstacles to happiness are many, mankind constantly tries to attain the ultimate goal. In this process, organization—as well as desire—is the key. An essential facet of organization is a method of sorting out the component parts of people's services to people.

UWASIS sorts out six broad human goals that are designed to attain the ultimate goal of a happier and more satisfying life. These six goals are interrelated and interdependent—as are the services systems, services and programs subsumed under the goals. They are not listed in order of importance; they are merely sorted out and described. But the ultimate purpose of UWASIS is not only to provide a tool for "sorting out" but to provide a chart of human efforts to deal with ourselves and our circumstances, so that the courses we, respectively, follow can be interlaced together.

BACKGROUND

In 1968, the then United Community Funds and Councils of America (now United Way of America) published a "Catalogue of Program Services." That publication contained a classification of and definitions for fields of services customarily supported by local United Ways or other voluntarily contributed funds. It was to be used—among other things—as a companion piece to "Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations," which had been published in 1964 under the sponsorship of the National Health Council and the National Social Welfare Assembly (now National Assembly for Social Policy and Development). The "Catalogue" was an important companion piece since the "Standards" had called for the reporting of agency expenditures on a program or functional basis, and, therefore, some uniformity among agencies in identifying program services became necessary.

In 1970, United Way of America started a process of revising and updating the "Catalogue" and expanding the classification to include certain governmental services in the health and welfare field. A special consultant[1] was retained to work with United Way of America staff on it, and, by December, had virtually completed a draft of revisions. Before proceeding further, however, it was decided that the draft should be cleared with local United Ways. The resulting reactions were mixed. While some communities applauded the revisions and urged immediate republication of the "Catalogue," others expressed doubts about the value of such "classifications" and indicated a desire for a document that would not only define specific services but systematically arrange them in such a way that their interrelationships and their places in the "scheme of things entire" would be clear. The nature and extent of reactions appeared to justify, therefore, a complete redo of the project, and the revision of the 1968 "Catalogue" was abandoned.

Accordingly, United Way of America staff called on twelve local United Way professionals from various sized communities across the country (four United Fund

---

[1] Richard Uhlig, Social Technical Systems Associates, Boston, Massachusetts.

BEST COPY AVAILABLE

State Laws Regulating the Solicitation of Funds for Charitable Purposes

3 of 6

By Charitable Organizations						By Professional Fund Raising Counsel and Solicitors		
State	Effective Date	Regulatory Agency	Registration or Licensing	Form of Annual Report & Due Date	Cost Limitations	Registration or Licensing	Surety Requirements	Period for Filing Contracts With Charities
Mass. cont.				or May on forms prescribed by Division	expenses	Registration	$10,000	is earlier
Michigan	Since 1961 as amended in 1965	Attorney General	Licensing	With application for license per instructions and forms similar to NHC-NSWA reporting instructions and	None			
Minnesota	Since 1961 as amended in 1965, 1967 & 1969	Secretary of State	Registration	Six months after end of calendar or fiscal year on forms adopted by State on 7/1/68 substantially similar to NHC-NSWA forms	30% to a professional fund raiser			
Nebraska	Since 1947 as amended in 1969	Secretary of State	Certificate granted on basis of letter of approval obtained from county attorney of home-office county	Six months after end of calendar or fiscal year on forms in compliance with NHC-NSWA forms & instruction	None			
New Jersey	April 1, 1972	Division of Consumer Affairs of office of Attorney General	Registration	Within 6 months after close of fiscal year per standards to be prescribed by Attorney General to effect uniform reporting	15% to professional fund raiser & professional solicitor, 50% for mail solicitation via sending of unordered merchandise	Registration by professional fund raiser & professional solicitor	$10,000 for professional fund raiser	Within 10 days after agreement is concluded

State Laws Regulating the Solicitation of Funds for Charitable Purposes

2 of 6

By Charitable Organizations						By Professional Fund Raising Counsel and Solicitors		
State	Effective Date	Regulatory Agency	Registration or Licensing	Form of Annual Report & Due Date	Cost Limitations	Registration or Licensing	Surety Requirements	Period for Filing Contracts With Charities
Florida cont.				Uniform Reporting Standards and Forms				
Georgia	Since 3/3/62 as amended in 1963	Secretary of State	Registration	Per Department Forms by March 31 or within 90 days after close of fiscal year	None	Registration by professional fund raiser and solicitor	$5,000 by professional fund raiser	None, but contracts must be retained for 3 years
Hawaii	Since 10/6/69	Director of Regulatory Agencies of the State	Registration	For previous fiscal year with registration statement on forms prescribed by Director	No more than 10% to a professional solicitor	Registration	$5,000	Within 10 days
Illinois	Since 7/20/63 as amended	Attorney General	Registration	Within 6 months after close of fiscal year on reporting forms revised by Attorney General on 1/1/68 per NHC-NSWA Standards and Forms	Not more than 25% to manufacturer or supplier of unordered goods, wares and merchandise	Registration for professional fund raiser and professional solicitor	$5,000 for professional fund raiser	With registration statement or within 10 days after execution
Maryland	Since 1964 as amended in 1966 & 1968 & 1972	Secretary of State	Registration	Within 90 days after close of fiscal year on forms prescribed	Remuneration or commission paid by a charity to a solicitor is subject to regulation of Secretary of Licensing and Regulation	By 7/1/72 Act Licensing by Secretary of Licensing and Regulation of all solicitors for a charitable organization for compensation	None	Within 10 days after by charity
Mass.	Since 1964 as amended in 1965	Division of Public Charities of Dept. Attorney General	Registration	On or before June 1 or before 60 days following a fiscal year ending in April Cont.	15% to professional solicitor, 50% for salaries, wages & soliciting, Cont.	Registration	$10,000	Within 10 days after entered into or performance, whichever Cont.

BEST COPY AVAILABLE

some may wish to develop further delineations beyond those given in this document–using "AIN" as the gate through which to proceed. Likewise, a given budgeter or allocator may use UWASIS differentially according to the purposes of given processes. In determining community priorities, for example, only the major services systems might be used. In examining an agency's expenditures, however, it might be desirable to identify specific programs.

In using UWASIS, therefore, the attitude, to begin with, should be one of flexibility and imaginativeness. Following are brief comments on specific items for the consideration of the users of UWASIS:

Users

A list of "users" of UWASIS would be quite long. The following are suggested:

- Local United Way executives, social planners, budget directors, campaign directors, public relations staff.
- Local United Way goal and allocations committees, membership committees, budget committees, priorities committees, study and survey committees.
- Voluntary agency administrators and agency policy boards.
- Corporate contributions committees and distribution committees of foundations.
- Department heads of governmental service units, and appropriators of public funds.
- Legislators, public study commissions.
- Civic service and advocacy groups.
- Educators, librarians and students.

Some Uses

The key to community priorities-setting is knowing what the service alternatives are. UWASIS offers an itemization–without agency labels or special pleading.

In program-planning, a given direct-service organization can find in UWASIS some hitherto unthought of programs that may be as related to the organization's goal as those programs it currently provides.

UWASIS is a key to accounting and program budgeting. It is an essential tool in using the management-by-objective method in developing organizational policies and administrative directions.

UWASIS can be an aid in linking the voluntary organization's know-how with government's requirement for service-delivery–by connecting the goals and services systems of both.

When a funding body–governmental or voluntary–wishes to allocate on the basis of purchasing specific services rather than on the basis of general subsidy to an agency, it is essential to identify clearly the distinguishing elements of different services.

Community surveys, which are conducted for the purpose of implementing specific plans for changing service-delivery systems or instituting new programs, need an identification system which can be used to compare programs among different communities and between different types of agency auspices.

Finally, any process of setting public social policy or of advocating a particular piece of legislative action should include a clear perspective on the interrelationships and interdependences among goals and services, and among parallel or conflicting interests.

Program Products

The "bottom" line under each program description is the program's product. Most are expressed in terms of individuals to be counted as recipients of the program in question. Some include "counts" of the type of activity conducted in behalf of the target group. Under a number of program descriptions is the notation "not quantifiable." These limitations in UWASIS not only are indicative of the current "state of the art," but reflect a recognition that some "counts" are just not practical–however desirable they might be for planning purposes. Nevertheless, as UWASIS allows for additional services and programs via "AIN" (as indicated above), users should experiment with additional "program products" in given instances.

ORGANIZATION OF THIS DOCUMENT

The sections which follow consist of:

- An outline of UWASIS, so that program titles can be seen in relation to their respective services, services systems and goals.
- An alphabetical and numbered listing of goals, services systems, services and programs.
- UWASIS itself, which follows the outline and describes each item as to its essential characteristics.
- An appendix which contains a glossary of basic UWASIS terms, a roster of the "Pittsburgh Twelve," a bibliography, and the following:
  - a chart of UWASIS
  - alphabetical index of all UWASIS titles
  - a cross index of the 1968 "Catalogue" titles with UWASIS titles.

Numbering Code

A numbering code for the purpose of accounting for UWASIS programs will be developed and included in the forthcoming budgeting and accounting manual. Meanwhile, in this document, UWASIS is presented in standard outline form.

ONLY A BEGINNING

As stated earlier, UWASIS is a first step. Whether future steps will, in fact, reach the ultimate goal of uniformly identifying all known services and programs depends on the extent to which users of UWASIS are willing to assist in the process of refinement. Such willingness, in turn, depends on the degree to which UWASIS is accepted as an essential companion piece to standards of reporting, on the one hand, and to development of effectiveness measurements, on the other. It is United Way of America's hope that UWASIS will receive such acceptance.

A COMPILATION OF STATE
LAWS REGULATING THE
SOLICITATION OF FUNDS
FOR CHARITABLE PURPOSES

(as of February 26, 1973)

Printed by the Council of Better Business Bureaus, Inc., 1150 17th Street, N.W., Washington, D.C. 20036